PARKSON RETAIL GROUP LIMITED
百盛商業集團有限公司
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 3368)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

Total operating revenues for the year of 2019 reached RMB5,026.0 million, representing a year-on-year increase of 3.7%.

Same Store Sales ("SSS") decreased by 3.9% in 2019.

Total Gross Sales Proceeds ("GSP") inclusive of value-added tax were RMB14,181.2 million in 2019, representing a year-on-year decrease of 6.7%.

Profit from operations for the year of 2019 was RMB474.5 million, an increase of RMB304.6 million or 179.3% compared to RMB169.9 million recorded in 2018.

Loss attributable to owners of the parent amounted to RMB222.8 million in 2019.

Without the impact of International Financial Reporting Standard 16 *Leases* ("IFRS 16"), profit from operations for the year of 2019 would increase by 46.9% to RMB249.7 million; loss attributable to owners of the parent in 2019 would increase by RMB0.7 million to RMB80.0 million.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The board (the "Board") of directors (the "Directors") of Parkson Retail Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 with comparative figures for the previous year of 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the year ended 31 December 2019 *RMB'000*	2018 *RMB'000*
Revenues		4,568,503	4,372,462
Other operating revenues		457,515	475,346
Total operating revenues	4	5,026,018	4,847,808
Operating expenses			
Purchases of goods and changes in inventories		(2,270,490)	(1,979,633)
Staff costs		(666,641)	(684,216)
Depreciation and amortisation		(696,674)	(265,408)
Rental expenses		(113,933)	(937,327)
Other operating expenses		(803,796)	(811,292)
Total operating expenses		(4,551,534)	(4,677,876)
Profit from operations		474,484	169,932
Finance income	6	75,411	139,900
Finance costs	6	(662,878)	(208,056)
Share of profits of:			
A joint venture		13,594	16,187
Associates		7,074	7,874
Gains on disposal of property, plant and equipment, net		43,703	-
(Loss)/profit before tax	5	(48,612)	125,837
Income tax expense	7	(155,068)	(180,449)
Loss for the year		(203,680)	(54,612)
Attributable to:			
Owners of the parent		(222,751)	(79,283)
Non-controlling interests		19,071	24,671
		(203,680)	(54,612)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		(RMB0.085)	(RMB0.030)
Diluted		(RMB0.085)	(RMB0.030)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2019	**2018**
	RMB'000	*RMB'000*
Loss for the year	(203,680)	(54,612)
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(71,354)	(174,096)
Other comprehensive income for the year, net of tax	(71,354)	(174,096)
Total comprehensive income for the year	(275,034)	(228,708)
Attributable to:		
Owners of the parent	(294,105)	(253,379)
Non-controlling interests	19,071	24,671
	(275,034)	(228,708)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,449,090	3,894,419
Investment properties		303,292	30,293
Right-of-use assets		3,248,189	-
Prepaid land lease payments		381,185	394,497
Intangible assets		1,792,053	1,797,675
Investment in a joint venture		26,934	28,517
Investments in associates		41,769	34,792
Trade receivables	10	78,482	91,596
Time deposit		787,899	1,433,142
Other assets		433,331	132,657
Deferred tax assets		227,586	186,576
Total non-current assets		10,769,810	8,024,164
CURRENT ASSETS			
Inventories		384,041	350,083
Trade receivables	10	265,536	290,183
Prepayments and other receivables		420,812	490,462
Financial assets at fair value through profit or loss		250,761	544,593
Investments in principal guaranteed deposits		250,050	664,780
Time deposits		939,482	683,863
Cash and cash equivalents		2,265,508	1,544,354
Total current assets		4,776,190	4,568,318
CURRENT LIABILITIES			
Trade payables	11	(1,136,563)	(1,354,766)
Other payables and accruals		(637,769)	(719,515)
Contract liabilities		(685,792)	(782,389)
Interest-bearing bank loans		(1,011,588)	(321,646)
Lease liabilities		(474,677)	-
Tax payable		(60,654)	(59,991)
Total current liabilities		(4,007,043)	(3,238,307)
NET CURRENT ASSETS		769,147	1,330,011
TOTAL ASSETS LESS CURRENT LIABILITIES		11,538,957	9,354,175

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 December	
	2019	**2018**
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(3,013,883)	(3,721,241)
Long term payables	-	(727,970)
Lease liabilities	(3,865,554)	-
Deferred tax liabilities	(313,187)	(280,114)
Total non-current liabilities	(7,192,624)	(4,729,325)
NET ASSETS	4,346,333	4,624,850
EQUITY		
Equity attributable to owners of the parent		
Issued capital	55,477	55,477
Reserves	4,175,184	4,454,462
	4,230,661	4,509,939
Non-controlling interests	115,672	114,911
TOTAL EQUITY	4,346,333	4,624,850

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability on 3 August 2005. The Company has established a principal place of business in Hong Kong in Room 1010, 10th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong. In the opinion of the Directors, the Company's ultimate holding company is Parkson Holdings Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad.

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are the operation and management of a network of department stores in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 December 2019 (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted a number of new and revised IFRSs effective as of 1 January 2019. Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's consolidated financial information. The nature and impact of the new and revised IFRS is described below:

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, International Financial Reporting Interpretations Committee ("IFRIC") 4 *Determining whether an Arrangement contains a Lease*, Standing Interpretations Committee ("SIC") 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices.

As a lessee - Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Applied a single discount rate to a portfolio of leases with reasonable similar characteristics

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) RMB'000
Assets	
Increase in right-of-use assets	3,836,781
Increase in other assets	262,015
Decrease in prepayments and other receivables	(14,261)
Decrease in deferred tax assets	(3,331)
Increase in total assets	4,081,204
Liabilities	
Increase in lease liabilities	4,770,431
Decrease in other payables and accruals	(33,407)
Decrease in long-term payables	(670,647)
Increase in total liability	4,066,377
Equity	14,827

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	7,495,208
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(36,469)
Add: Payments for optional extension periods not recognised as at 31 December 2018	93,245
	7,551,984
Weighted average incremental borrowing rate as at 1 January 2019	9.92%
Lease liabilities as at 1 January 2019	4,770,431

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the year are as follow:

	Right-of-use assets	
	Land and building	Lease liabilities
	RMB'000	RMB'000
As at 1 January 2019	3,836,781	4,770,431
Additions	20,538	20,512
Decrease	(152,230)	(145,196)
Depreciation charge	(456,900)	-
Interest expenses	-	425,040
Payments	-	(730,556)
As at 31 December 2019	3,248,189	4,340,231

3. GROSS SALES PROCEEDS

	For the year ended 31 December	
	2019	**2018**
	RMB'000	RMB'000
Sale of goods from direct sales	2,712,119	2,323,660
Gross revenue from concessionaire sales	8,963,992	9,961,302
Total merchandise sales	11,676,111	12,284,962
Others (including consultancy and management service fees, gross rental income, credit services income and other operating revenues)	884,876	900,021
Total gross sales proceeds	12,560,987	13,184,983
Total gross sales proceeds (inclusive of value-added tax)	14,181,167	15,194,610

4. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenues

	For the year ended 31 December	
	2019	**2018**
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of goods from direct sales	2,712,119	2,323,660
Commissions from concessionaire sales	1,429,023	1,624,127
Consultancy and management service fees	12,263	9,011
	4,153,405	3,956,798
Revenue from other sources		
Gross rental income	357,952	406,023
Credit services	57,146	9,641
	415,098	415,664
	4,568,503	4,372,462

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Rental income is recognised on a time proportion basis over the lease terms. Credit services income is recognised when the relevant services are rendered.

Other operating revenues

	Note	For the year ended 31 December 2019 RMB'000	2018 RMB'000
Promotion income		72,306	80,760
Administration and credit card handling fees		138,089	140,244
Government grants	(i)	8,953	8,141
Other incomes		238,167	246,201
		457,515	475,346

Note:

(i) Various local government grants have been granted to reward the Group for its contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

Segment information

For management purposes, except for the consumer financing business carried out under Parkson Credit mainly in Malaysia, the Group has a single operating and reportable segment - the operation and management of department stores in the PRC. Except for credit services, revenues from external customers are generated in the PRC and all significant operating assets of the Group are located in the PRC.

As the consumer financing business does not have a material impact on the Group's results based on a measure of revenues, net profit and total assets, respectively. For management purpose, there is no need to treat it as a separate operating and reportable segment to disclose.

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	For the year ended 31 December	
	2019	**2018**
	RMB'000	RMB'000
Cost of inventories recognised as expenses	2,270,490	1,979,633
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	488,148	502,328
Pension scheme contributions	58,193	66,529
Social welfare and other costs	110,065	105,530
	656,406	674,387
Directors' remuneration	10,235	9,829
	666,641	684,216
Depreciation and amortisation	696,674	265,408
Impairment of receivables	14,871	2,439
Reversal of impairment of other receivables	(43)	(6,071)
Impairment of property, plant and equipment	-	7,843
Rental expenses in respect of leased properties:		
Minimum lease payments *	18,435	793,572
Contingent lease payments **	95,498	143,755
	113,933	937,327
(Gains)/losses on disposal of property, plant and equipment, net	(43,703)	17,363
Auditor's remuneration	3,913	3,888
Gross rental income in respect of investment properties	(3,807)	(5,213)
Lease income in respect of sublease of properties under operating lease:		
Minimum lease payments *	(254,723)	(299,945)
Contingent lease payments **	(99,422)	(100,865)
	(354,145)	(400,810)
Total gross rental income	(357,952)	(406,023)
Direct operating expenses arising on rental-earning investment properties	664	1,005

* Minimum lease payments of the Group include pre-determined rental payments and minimum guaranteed rental payments for lease agreements with contingent rental payments.

** Contingent lease payments are calculated based on a percentage of the relevant performance of the tenants pursuant to the relevant rental agreements.

6. FINANCE INCOME/COSTS

	For the year ended 31 December	
	2019	**2018**
	RMB'000	RMB'000
Finance income:		
Bank interest income	33,809	114,713
Gain on redemption of financial assets at fair value through profit or loss	11,497	19,239
Change of fair value of financial assets at fair value through profit or loss	1,515	5,948
Interest income on the net investments in subleases	28,590	-
	75,411	139,900
Finance costs:		
Interest expense on lease liabilities	(425,040)	-
Interest-bearing bank loans	(237,838)	(175,786)
Bonds	-	(32,270)
	(662,878)	(208,056)
Finance costs, net	(587,467)	(68,156)

7. INCOME TAX EXPENSE

The Group is subject to income tax on entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operates.

An analysis of the provision for tax in the consolidated statement of profit or loss is as follows:

	For the year ended 31 December	
	2019	**2018**
	RMB'000	RMB'000
Current income tax	166,336	207,497
Deferred income tax	(11,268)	(27,048)
	155,068	180,449

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,634,532,000 (2018: 2,634,532,000) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

9. DIVIDEND

	For the year ended 31 December	
	2019	**2018**
	RMB'000	RMB'000
Interim - nil (2018: RMB0.03) per ordinary share	-	79,037
Proposed final - nil (2018: nil) per ordinary share	-	-
	-	79,037

The Board does not recommend the payment of a final dividend for 2019 (2018: nil).

10. TRADE RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current		
Third party	267,493	294,659
Impairment	(1,957)	(4,476)
	265,536	290,183
Non-current		
Third party	85,388	94,295
Impairment	(6,906)	(2,699)
	78,482	91,596
	344,018	381,779

Trade receivables of department stores mainly arise from purchase by customers with credit card payments and credit services arise from loan receivables. The credit period of trade receivables is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. For trade receivables, the Group does not hold any collateral or other credit enhancements over its trade receivable balances. Among the balance, RMB260,184,000 are with an interest rate of 9% to 19% depending on the payment term of loan receivables, others are interest-free.

Included in the balance as at 31 December 2019 were trade receivables from the joint venture of approximately RMB194,000 (31 December 2018: RMB195,000) and an associate of RMB350,000 (31 December 2018: RMB350,000) which are attributable to the consultancy fee income of the Group. These balances are unsecured and interest-free.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 1 year	265,536	290,183
1 to 2 years	64,537	68,778
Over 2 year	13,945	22,818
Total	344,018	381,779

Under the general approach, an impairment analysis is performed at each reporting date based on three stages to measure expected credit losses. Set out below is the information about the movement of the impairment of the Group's trade receivables:

	Expected credit loss
	RMB'000
At the beginning of year	7,175
Impairment losses	14,871
Write off	(13,183)
At the end of year	8,863

11. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	As at 31 December	
	2019	**2018**
	RMB'000	RMB'000
Within 3 months	1,059,831	1,281,771
4 to 12 months	48,663	44,346
Over 1 year	28,069	28,649
	1,136,563	1,354,766

12. CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company, which is scheduled on Thursday, 21 May 2020 (the "AGM"), the register of members of the Company will be closed from Friday, 15 May 2020 to Thursday, 21 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on Thursday, 14 May 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is delighted to present the annual report of the Group for the year ended 31 December 2019 ("Year under Review"). In 2019, the Group achieved stable performance, which demonstrated its dedication to continue diversifying its retail formats and enhanced product offerings to reinforce the Group's position as a leading lifestyle retailer in China.

Economic Environment

Under multiple fronts of downward pressure including the prolonged trade tensions between China and the United States, China's economic growth slowed in 2019 to 6.1%, compared with an economic growth of 6.6% in 2018, according to the latest figures announced by the National Bureau of Statistics of China.

China's retail market also faced a number of challenges. According to the National Bureau of Statistics, China's total retail sales of consumer goods grew by 8.0% in 2019, compared with a sector growth of 9.0% in 2018. The growth of retail sector has been easing for two consecutive years. The economic uncertainty has had Chinese consumers think twice before making any spending decision. Amid risks, however, the retail market demonstrated remarkable resilience compared with other sectors. The stable social and economic environments provide a solid support for the consumer market. Consumption is expected to remain China's leading driver for economic growth with a positive outlook in 2020.

The consumption upgrade trend has been steadily growing as consumers' demands for products with higher quality and better user experience have increased constantly. Although the growth of overall retail sales has slowed down, some sectors such as cosmetics, food, daily necessities and restaurants have increased steadily, with a higher growth rate than that of overall retail sales. This coincides with the Group's strategy of sustainable business development, which takes certain specific consumption sectors as the focus of business development, strives to improve customer experience and actively grasps the consumption upgrade trend, so as to capture the opportunities of China's retail market.

Business Results

During the Year under Review, the Group recorded GSP of RMB14,181.2 million inclusive of value-added tax, a decline of 6.7% compared to last year, which was mainly due to the closure of underperforming stores in 2019 and the decline in SSS. Total operating revenues of the Group increased by RMB178.2 million or 3.7% to RMB5,026.0 million, profit from operations increased by 179.3% year-on-year to RMB474.5 million. SSS decreased by 3.9% in 2019.

For the business performance, Parkson continued to diversify its retail formats to meet growing consumer demand for quality products and service. In order to meet the demand of consumption upgrade, the Group has implemented a series of strategies, including the expansion of product categories such as more international cosmetic brands, sports and apparel brands on top of traditional products, as well as upgrading traditional supermarkets into gourmet supermarkets in department stores to cater for rapid changing of consumer demands.

During the Year under Review, to better utilise resources, we have closed five underperforming stores. As of 31 December 2019, the Group operated and managed 38 Parkson stores (including concept stores "Parkson Beauty"), 1 Lion Mall, 2 Parkson Newcore City Malls, supermarkets, fashion and food & beverage outlets, in 27 major cities across China.

Differential Positioning Creates Synergies

Following a period of business transformation, Parkson is expanding its retail portfolio while flexibly applying various operating models and financial arrangements to strengthen the Group's position as a leading lifestyle retailer in China. In June 2019, the Group secured the usage right of a property above Bayi Guan Station of Nanchang Rail Transit Line 1 with a total gross area of 42,900 square meters, and this new Nanchang Bayi Guan Store saw its grand opening on 16 January 2020. The new department store is located on the prosperous Zhongshan Road in the old city of Nanchang, above the intersection of two subway lines and is just across the road from Nanchang Zhongshan Road Store. The Zhongshan Road Store is a hub for high-end brands while the Bayi Guan Store focuses on young and fashion brands. The tactics of differential positioning along with close collaboration of the two stores have created synergies and attracted a wider customer group, allowing the Group more flexibility while leveraging on its diversified retail formats.

Strategic Business Expansion

In terms of the department store business, the Group's second department store in Datong, Shanxi Province is expected to open in the second quarter of 2020. It is expected that this retail space will be a "Complex of department stores and shopping centers", which will further diversify the product mix within the facility. It also fits into the Group's Differential Positioning tactics for "Multiple Stores in a City", which aim to serve more customers with different spending habits. In addition, preparation work for the Group's department store in Tongren city, Guizhou Province is well under way and the store is expected to welcome guests in the second quarter of 2020.

Strong Performance of Beauty Segment

In recent years, the Group has been actively exploring the beauty segment, and has recorded ideal performance. The Group also focuses on the innovation and exploration of business model in this field. "Parkson Beauty", the Group's beauty concept store, has been performing well and received positive response from customers. It has attracted various international beauty brands and created a brand-new beauty upgrading experience for consumers. Up to now, "Parkson Beauty" has set up three retail outlets in Changsha, Qingdao and Nanning, and has become a leading collection store of high-end beauty brands. In order to enhance the brand image and popularity of the Group's beauty segment, the Group has made a number of promotions actively. It is worth mentioning that, Malaysia's Lee Chong Wei, who is inducted into the Badminton Hall of Fame, was invited to "Parkson Beauty" as a "one-day manager" in its Changsha IFS store in November 2019. The event attracted a large number of customers and fans of Lee Chong Wei.

Fast Fashion Segment with Bright Prospects

In addition to the beauty segment, the fast fashion segment has become another new business direction of the Group. In 2019, Parkson has launched its self-owned fast fashion brand "evry-D" and set up sales counters in five retail stores within a short period. With its unique brand concept and business model, "evry-D" has attracted the attention of consumers and the industry. It is also a new trend of Parkson in business transformation and innovation. In view of the growing consumption power of the younger generation, the Group will continue to expand the scale of "evry-D" counters in 2020, so as to enhance its brand influence and enlarge its market share. Besides, the Group has also actively discussed with other brand operators to seek feasible cross-border cooperation, and is committed to promoting the long-term development of the Group's fashion sector through a variety of operation modes.

Outlook

Whilst the macroeconomic environment is expected to be uncertain in the coming year, we remain optimistic about China's retail industry. Furthermore, our strategic business transformation has brought significant benefits to the Group through our practice in the past few years. With more than two decades of experience in the department store sector, we are confident that Parkson can champion the fast-changing retail sector by improving the innovation of operation models and accelerating the development of new businesses. We will remain deeply committed to the Chinese market and create greater long-term value for our shareholders.

Looking forward, we will expand our retail portfolio at the right pace and in the right manner. In order to meet the fast pace of modern life as well as customers' expectations of a pleasant shopping experience, Parkson, which owns a number of one-stop comprehensive retail premises, is poised to take advantage of our product sales, logistics and data collection capabilities to create a comprehensive and relaxed shopping experience for customers.

Meanwhile, Parkson will continue to carry out its strategy of upgrading brands and product categories by diversifying retail formats and further exploring omni-channel marketing. It will also be devoted to developing its various business segments, including the beauty segment led by "Parkson Beauty" and the fashion segment led by its own fast fashion brand "evry-D". The Group will actively strengthen the cooperation between its own brands and other brands, create more interactive effects, and constantly improve brand awareness and product quality. We believe that by virtue of the Group's diversified business strategy and its leading position in China's retail market, the Group is able to provide customers with the best quality services constantly, achieve outstanding performance amid challenging retail environment and drive the Group's long-term development.

FINANCIAL REVIEW

GSP and operating revenues

During the 2019, GSP (consists of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees, credit service income and other operating revenues) decreased by 6.7% year-on-year to RMB14,181.2 million (inclusive of value-added tax), mainly due to closure of underperforming stores in 2019 and the decline in SSS. SSS decreased by 3.9% in 2019.

Total merchandise sales

	For the year ended 31 December				Year-on-year change (%)
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	
Concessionaire sales	8,963,992	76.8%	9,961,302	81.1%	(10.0%)
Direct sales	2,712,119	23.2%	2,323,660	18.9%	16.7%
	11,676,111	100.0%	12,284,962	100.0%	(5.0%)

Total merchandise sales decreased by RMB608.9 million or 5.0% to RMB11,676.1 million (net of value-added tax) in 2019. Concessionaire sales continued to be the key sales driver in 2019, but as a percentage of our total merchandise sales, it decreased in 2019 compared to 2018. This decrease was primarily due to the growth in sales from our Cosmetics & Accessories category in direct sales, which was mainly attributable to the robust performance of beauty segment.

Merchandise sales mix

	For the year ended 31 December	
	2019	2018
	% of total merchandise sales	% of total merchandise sales
Cosmetics & Accessories	51.4%	48.0%
Fashion & Apparel	40.8%	43.3%
Groceries & Perishables	5.1%	5.7%
Household & Electrical	2.7%	3.0%
	100.0%	100.0%

In 2019, sales from Cosmetics & Accessories category, which constituted 51.4% of our total merchandise sales, demonstrated faster growth compared to other categories, mainly attributable to the opening of standalone concept store of Parkson Beauty in May and September 2018 and our efforts to enhance market awareness of our beauty segment.

Merchandise gross margin

The Group's merchandise gross margin (a combination of concessionaire commission rate and the direct sales margin) stabilized at 16.0% in 2019, consistent with last year.

Total operating revenues

Total operating revenues of the Group increased by RMB178.2 million or 3.7% to RMB5,026.0 million in 2019, which was primarily attributable to (i) the increase in direct sales of RMB388.5 million which was contributed by the strong sales performance of the Cosmetics & Accessories category and (ii) inclusion of the revenue of RMB57.1 million in credit services generated by Parkson Credit Sdn Bhd which was acquired in October 2018. The increase was partially offset by the decrease in commissions from concessionaire sales due to closure of unprofitable stores and rental income due to the impact of adoption of IFRS 16.

Operating expenses

Purchase of goods and change in inventories

The purchase of goods and change in inventories represented the cost of sales for direct sales. In line with the increase in direct sales, cost of sales increased by 14.7% to RMB2,270.5 million in 2019 from RMB1,979.6 million in 2018.

Staff costs

Staff costs decreased by 2.6% to RMB666.6 million in 2019 from RMB684.2 million in 2018. This decrease was primarily due to the closure of unprofitable stores in 2019. The decrease was partially offset by the increase in staff costs incurred by Parkson Beauty, PLAYUP and credit service and an increase in base salaries of our employees. On a same store basis, staff costs increased by 1.2%.

Staff costs as a percentage of GSP increased from 5.2% in 2018 to 5.3% in 2019.

Depreciation and amortisation

Depreciation and amortisation increased by 162.5% to RMB696.7 million in 2019 from RMB265.4 million in 2018. The significant increase was largely attributable to the impact of adoption of IFRS 16. In 2019, RMB456.9 million of depreciation expense on the right-of-use assets was charged to depreciation and amortisation.

Without the impact of IFRS 16, depreciation and amortisation decreased by RMB25.6 million to RMB239.8 million in 2019. The decrease was primarily due to savings from closure of stores and fully depreciated assets in some stores. On a same store basis, depreciation charges decreased by 14.0%, mainly due to the fully depreciated assets mentioned above.

Without the impact of IFRS 16 on depreciation and amortisation, depreciation and amortisation as a percentage of GSP decreased from 2.0% in 2018 to 1.9% in 2019.

Rental expenses

Rental expenses decreased by 87.8% to RMB113.9 million in 2019 from RMB937.3 million in 2018. The significant decrease was primarily due to the impact of adoption of IFRS 16. Under IFRS 16, rental expenses are replaced with depreciation expense on the right-of-use assets and interest expense on the lease liabilities.

Without the impact of IFRS 16, rental expenses decreased by RMB85.5 million or 9.1% to RMB851.8 million in 2019. The decrease was mainly due to (i) lease term renegotiation of some stores within the Group; and (ii) savings from closure of underperforming stores in 2019. On a same store basis, rental expenses decreased by 1.1%.

Without the impact of IFRS 16 on rental expenses, rental expenses as a percentage of GSP decreased from 7.1% in 2018 to 6.8% in 2019.

Other operating expenses

Other operating expenses which consist of (a) utilities cost; (b) marketing, promotional and selling expenses; (c) property management expenses; (d) general administrative expenses; and (e) city development and educational surcharge, decreased by 0.9% to RMB803.8 million in 2019 from RMB811.3 million in 2018 as a result of closure of underperforming stores in 2019 and management's effort to rationalize cost within the Group. On a same store basis, other operating expenses decreased by 7.4%.

Other operating expenses as a percentage of GSP increased from 6.2% in 2018 to 6.4% in 2019.

Profit from operations

The Group generated a profit from operations of RMB474.5 million for 2019, an increase of RMB304.6 million or 179.3% compared to RMB169.9 million recorded in 2018.

Without the impact of IFRS 16 on profit from operations, profit from operations increased by RMB79.8 million or 46.9% to RMB249.7 million in 2019; profit from operations as a percentage of GSP increased from 1.3% in 2018 to 2.0% in 2019.

Finance income/costs

The Group's finance income decreased by 46.1% to RMB75.4 million in 2019 from RMB139.9 million in 2018. Under IFRS 16, RMB28.6 million of interest income on the net investments in sublease was recognised in finance income in 2019. Without the impact of IFRS 16, finance income decreased by RMB93.1 million or 66.5% to RMB46.8 million in 2019.

The Group's finance costs increased significantly to RMB662.9 million in 2019 from RMB208.1 million in 2018. Under IFRS 16, RMB425.0 million of interest expense on the lease liability was charged to finance costs in 2019. Without the impact of IFRS 16, finance costs increased by RMB29.7 million or 14.3% to RMB237.8 million in 2019. This increase was primarily attributable to the higher interest rate charged for the bank loans compared with bonds.

Share of profits of a joint venture

This is the share of profits from Xinjiang Youhao Parkson Development Co., Ltd., a joint venture of the Group. The share of profits decreased to RMB13.6 million in 2019 from RMB16.2 million in 2018. This decrease was primarily due to the negative impact on local consumption by the slowdown in the PRC economy.

Share of profits of associates

This is the share of results from the Group's associated companies. Share of profits of associates decreased to RMB7.1 million in 2019 from RMB7.9 million in 2018. This decrease was primarily due to the negative impact of IFRS 16 of RMB7.9 million. Without the impact of IFRS 16, share of profits of associates increased by RMB7.1 million to RMB15.0 million in 2019. This increase was primarily attributable to the profit from Parkson Newcore which entered into the stable development period.

(Loss)/profit before tax ("PBT")

Loss before tax decreased by 138.6% year-on-year to RMB48.6 million in 2019, compared to a profit before tax of RMB125.8 million in 2018. This decrease was primarily due to the impact of adoption of IFRS 16. The combination of straight-line depreciation of the right-of-use assets and effective interest rate method applied on the lease liabilities results in a higher total charge to profit or loss in the initial years of the lease, and decreasing expense during the latter part of the lease term. The negative impact of IFRS 16 on PBT for 2019 was RMB180.3 million.

Without the impact of IFRS 16, our PBT increased by RMB5.9 million to RMB131.7 million in 2019. The increase was primarily attributable to our increased revenues and gains on disposal of a property in 2019.

Without the impact of IFRS 16 on PBT, PBT as a percentage of GSP remained stable at 1.0% in 2019.

Income tax expense

The Group's income tax expense decreased by 14.0% to RMB155.1 million in 2019 from RMB180.4 million in 2018, mainly due to (i) the withholding tax of RMB64.0 million accrued for dividend distribution and (ii) the decrease of profit before tax.

Loss for the year

As a result of the foregoing, our loss for the year increased by RMB149.1 million to RMB203.7 million in 2019 from RMB54.6 million in 2018. Without the impact of IFRS 16, our loss for the year increased by RMB5.3 million or 9.7% to RMB59.9 million in 2019.

Loss attributable to owners of the parent

Loss attributable to the owners of the parent increased from RMB79.3 million in 2018 to RMB222.8 million in 2019. Without the impact of IFRS 16, loss attributable to owners of the parent increased by RMB0.7 million or 0.9% to RMB80.0 million in 2019.

Impact of IFRS 16 on the consolidated statement of profit or loss

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	For the year ended 31 December 2019		
	Results without IFRS 16	**Impact of IFRS 16**	**Results as reported**
	RMB'000	RMB'000	RMB'000
Revenues	4,627,087	(58,584)	4,568,503
Other operating revenues	460,555	(3,040)	457,515
Depreciation and amortisation	(239,774)	(456,900)	(696,674)
Rental expenses	(851,765)	737,832	(113,933)
Other operating expenses	(809,321)	5,525	(803,796)
Profit from operations	249,651	224,833	474,484
Finance income	46,821	28,590	75,411
Finance costs	(237,838)	(425,040)	(662,878)
Share of profit of a joint venture	14,358	(764)	13,594
Share of profit of associates	14,982	(7,908)	7,074
Profit/(loss) before tax	131,677	(180,289)	(48,612)
Income tax expense	(191,565)	36,497	(155,068)
Loss for the year	(59,888)	(143,792)	(203,680)
Attributable to:			
Owners of the parent	(80,005)	(142,746)	(222,751)
Non-controlling interests	20,117	(1,046)	19,071
	(59,888)	(143,792)	(203,680)

Liquidity and financial resources

As at 31 December 2019, the cash and cash equivalents and deposits with licensed banks of the Group (aggregate of principal guaranteed investment deposit, time deposits, financial assets at fair value through profit or loss and cash and bank balances deposited with licensed banks) stood at RMB4,493.7 million, representing a reduction of RMB377.0 million or 7.7% from balance as at 31 December 2018 of RMB4,870.7 million. The decrease was primarily due to (i) net cash inflow from operating activities amounted to RMB589.9 million; (ii) net cash inflow from investing activities amounted to RMB105.4 million; and (iii) net cash outflow from financing activities amounted to RMB1,072.3 million.

Total debt to total assets ratio of the Group was 25.9% as at 31 December 2019.

Current assets and net assets

The Group's current assets as at 31 December 2019 was RMB4,776.2 million. Net assets of the Group as at 31 December 2019 decreased by 6.0% to RMB4,346.3 million.

Information on the financial products

Investment in principal guaranteed deposits refer to the principal preservation type wealth management products subscribed by the Group from licensed banks operate in China. As at 31 December 2019, the balance of these products was RMB250.1 million, accounting for approximately 1.6% of the total assets of the Group.

Financial assets at fair value through profit or loss refer to the non-principal preservation type wealth management products subscribed by the Group from licensed banks operate in China. As at 31 December 2019, the fair value of these products was RMB250.8 million, accounting for approximately 1.6% of the total assets of the Group.

Pledge of Assets

As at 31 December 2019, the Group has pledged deposits of RMB1,188.0 million, pledged buildings, investment properties and prepaid land lease payment with a net carrying amount of approximately RMB2,292.6 million, RMB286.8 million and RMB369.9 million respectively to secure general bank loans. Other than the aforesaid, no other assets are pledged to any bank or lender.

EMPLOYEES

As at 31 December 2019, total number of employees for the Group was 5,773. The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

The Company has fully complied with the Corporate Governance Code ("CG Code") (to the extent that such provisions are applicable) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (collectively, the "Listing Rules") except for below deviation from the code provision A.2.1 of the CG Code:-

Under code provision A.2.1 of the CG code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of Mr. Chong Sui Hiong as the former Chief Executive Officer of the Group ("CEO") on 1 February 2019, certain functions of CEO have been undertaken by Tan Sri Cheng Heng Jem, the Executive Director and Chairman of the Company. Since 1 February 2019, the Company has deviated from code provision A.2.1 of the CG Code during the period from 1 February 2019 to 31 December 2019. The Board believes that vesting the roles of both Chairman and the CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its businesses and to review such practices from time to time to ensure that they comply with the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding Directors' securities transaction. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2019.

AUDIT COMMITTEE

The Audit Committee (the "Committee") has been established by the Company to review the financial reporting matters, internal control and maintain an appropriate relationship with the Company's external auditor. The Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2019, including the accounting principles and policies adopted by the Group. The Committee comprises the non-executive director and three independent non-executive directors of the Company, one of whom has appropriate professional qualification and experience in financial matters as required by the Listing Rules.

PUBLICATION OF FINAL RESULTS

This announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The 2019 annual report will be dispatched to shareholders of the Company and available on the above websites in due course.

ACKNOWLEDGEMENT

I would like to thank the Board, management and all our staff for their hard work and dedication. I would also like to thank the shareholders and business associates for their strong support to the Group.

On behalf of the Board
Parkson Retail Group Limited
Tan Sri Cheng Heng Jem
Executive Director & Chairman

24 February 2020

As at the date of this announcement, the Executive Directors of the Company are Tan Sri Cheng Heng Jem and Ms. Juliana Cheng San San, the Non-executive Director is Dato' Sri Dr. Hou Kok Chung and the Independent Non-executive Directors are Dato' Fu Ah Kiow, Mr. Ko Desmond and Mr. Yau Ming Kim, Robert.