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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS

Total operating revenues for the year of 2020 reduced to RMB4,428.3 million, representing a year-on-year decrease of 11.9%.

Same Store Sales ("SSS") decreased by 18.7% in 2020.

Total Gross Sales Proceeds ("GSP") inclusive of value-added tax were RMB11,225.6 million in 2020, representing a year-on-year decrease of 20.8%.

Profit from operations for the year of 2020 was RMB349.0 million, a decrease of RMB125.5 million or 26.5% compared to RMB474.5 million recorded in 2019.

Loss attributable to owners of the parent amounted to RMB250.1 million in 2020.

The above is mainly due to the impact of the outbreak of Coronavirus Disease ("COVID-19") in early 2020. The outbreak of COVID-19 has disrupted the operation of the stores. However, there is a steady increase in sales in second half of the year.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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 2020 with comparative figures for the previous year of 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the year ended 31 December **2020** *RMB'000*	2019 *RMB'000*
Revenues		**4,009,881**	4,568,503
Other operating revenues		**418,468**	457,515
Total operating revenues	*5*	**4,428,349**	5,026,018
Operating expenses			
Purchases of goods and changes in inventories		**(2,214,507)**	(2,270,490)
Staff costs		**(547,168)**	(666,641)
Depreciation and amortisation		**(690,353)**	(696,674)
Rental expenses		**13,917**	(113,933)
Other operating expenses		**(641,279)**	(803,796)
Total operating expenses		**(4,079,390)**	(4,551,534)
Profit from operations		**348,959**	474,484
Finance income	*7*	**99,922**	75,411
Finance costs	*7*	**(569,909)**	(662,878)
Share of profits of:			
Joint ventures		**2,027**	13,594
Associates		**1,299**	7,074
Gains on disposal of property, plant and equipment, net		**–**	43,703
Loss before tax	*6*	**(117,702)**	(48,612)
Income tax expense	*8*	**(119,218)**	(155,068)
Loss for the year		**(236,920)**	(203,680)
Attributable to:			
Owners of the parent		**(250,114)**	(222,751)
Non-controlling interests		**13,194**	19,071
		(236,920)	(203,680)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**(RMB0.095)**	(RMB0.085)
Diluted		**(RMB0.095)**	(RMB0.085)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Loss for the year	**(236,920)**	(203,680)
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**86,489**	(61,526)
Other comprehensive income that will not be classified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**64,602**	(9,828)
Other comprehensive income for the year, net of tax	**151,091**	(71,354)
Total comprehensive income for the year	**(85,829)**	(275,034)
Attributable to:		
Owners of the parent	**(99,023)**	(294,105)
Non-controlling interests	**13,194**	19,071
	(85,829)	(275,034)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December **2020** *RMB'000*	2019 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,287,490**	3,449,090
Investment properties		**420,428**	303,292
Right-of-use assets		**3,815,672**	3,629,374
Goodwill		**1,770,538**	1,770,538
Other intangible assets		**14,450**	21,515
Investments in joint ventures		**19,748**	26,934
Investments in associates		**42,938**	41,769
Trade receivables	*11*	**97,184**	78,482
Time deposits		**729,880**	787,899
Other assets		**648,027**	433,331
Deferred tax assets		**265,764**	227,586
Total non-current assets		**11,112,119**	10,769,810
CURRENT ASSETS			
Inventories		**425,055**	384,041
Trade receivables	*11*	**263,475**	265,536
Prepayments and other receivables		**766,340**	420,812
Financial assets at fair value through profit or loss		**242,472**	250,761
Investments in principal guaranteed deposits		**15,600**	250,050
Time deposits		**104,846**	939,482
Cash and cash equivalents		**1,499,324**	2,265,508
Total current assets		**3,317,112**	4,776,190
CURRENT LIABILITIES			
Trade payables	*12*	**(979,721)**	(1,136,563)
Other payables and accruals		**(598,919)**	(637,769)
Contract liabilities		**(629,237)**	(685,792)
Interest-bearing bank loans		**(1,134,253)**	(1,011,588)
Lease liabilities		**(556,092)**	(474,677)
Tax payable		**(58,940)**	(60,654)
Total current liabilities		**(3,957,162)**	(4,007,043)
NET CURRENT (LIABILITIES)/ASSETS		**(640,050)**	769,147
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,472,069**	11,538,957

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**(1,816,306)**	(3,013,883)
Lease liabilities	**(4,151,702)**	(3,865,554)
Deferred tax liabilities	**(303,051)**	(313,187)
Total non-current liabilities	**(6,271,059)**	(7,192,624)
NET ASSETS	**4,201,010**	4,346,333
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**55,477**	55,477
Reserves	**4,067,223**	4,175,184
	4,122,700	4,230,661
Non-controlling interests	**78,310**	115,672
TOTAL EQUITY	**4,201,010**	4,346,333

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").

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 December 2020 (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.

Going Concern Basis

The Group reported net current liabilities of RMB640,050,000 as at 31 December 2020. The unrestricted cash and cash equivalents amounted to RMB1,499,324,000 as at 31 December 2020. As at 31 December 2020, the Group's capital commitment in respect of the capital expenditure for its construction in progress to be incurred in the coming twelve months was RMB143,642,000. The Group incurred a net loss of RMB236,920,000 during the year ended 31 December 2020. These circumstances may cast significant doubt on the Group's ability to continue as a going concern.

Management have prepared a cash flow forecast of the Group for the next twelve months based on the existing situation, the future events and commitments of the Group. Management considered that the Group will have adequate working capital to meet its obligations, and therefore the financial statements of the Group have been prepared on a going concern basis. Measures and estimations have been taken into consideration by management, including, and not limited to:

(i) The Group's syndicated loans of RMB2,746,981,000 are secured by mortgages over the Group's properties with a total carrying amount of RMB2,967,255,000 and a total fair value of RMB6,600,000,000, and pledged deposits with a carrying amount of RMB700,314,000. Management believes that the total fair value of the pledged assets could cover all the outstanding balance of the loans.

(ii) The Group has been actively negotiating with the banks and financial institutions to obtain additional loans to replace the existing RMB2,746,981,000 secured syndicated bank loans and supplement its operating cash flows. Based on the communication between the banks and the Group, among others, up to the date of approval of these financial statements, the Group expects to obtain additional loans amounting to approximately RMB3,000,000,000. Nevertheless, the confirmation of the loans is subject to the final contract between the Group and the banks.

(iii) The Group has been actively negotiating long term leases with potential lessees for one of its investment properties located in Beijing Financial Street, which has been in the process of asset enhancement since the end of 2019. This enhancement is expected to finish and the property will be ready for rental in the middle of 2021. In the opinion of management, the potential rental income would contribute to normal operating cash flows in the coming twelve months.

(iv) The Group continues to focus on the improvement of its retail business operation, including opening new department stores with competitive advantages, closing those non-performance department stores, placing more focus on the fashion and beauty segment and improving its "online + offline" sales model. In addition, considering the expected recovery of economy of China from COVID-19, the business operation of the Group is expected to be recovered.

Should the Group fail to realise its plans to improve its financial position, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position as at 31 December 2020. In addition, the Group may have to provide for further liabilities that might arise. The effects of these adjustments have not been reflected in these consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted a number of new and revised IFRSs effective as of 1 January 2020. Other than as explained below regarding the impact of Amendment to IFRS 16 *COVID-19-Related Rent Concessions (early adopted)*, 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:

Amendment to IFRS 16 *Covid-19-Related Rent Concessions* (early adopted)

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB88,429,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Going concern consideration

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that may individually or collectively cast a significant doubt upon the going concern assumption are set out in note 2.1 to the financial statements.

4. GROSS SALES PROCEEDS

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Sale of goods from direct sales	**2,608,000**	2,712,119
Gross revenue from concessionaire sales	**6,612,704**	8,963,992
Total merchandise sales	**9,220,704**	11,676,111
Others (including consultancy and management service fees, gross rental income, credit services income and other operating revenues)	**806,189**	884,876
Total gross sales proceeds	**10,026,893**	12,560,987
Total gross sales proceeds (inclusive of value-added tax)	**11,225,585**	14,181,167

5. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenues

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods from direct sales	**2,608,000**	2,712,119
Commissions from concessionaire sales	**1,014,160**	1,429,023
Consultancy and management service fees	**10,763**	12,263
	3,632,923	4,153,405
Revenue from other sources		
Gross rental income	**317,618**	357,952
Credit services	**59,340**	57,146
	376,958	415,098
	4,009,881	4,568,503

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

		For the year ended 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Promotion income		**56,736**	72,306
Administration and credit card handling fees		**124,487**	138,089
Government grants	*(i)*	**14,027**	8,953
Other income		**223,218**	238,167
		418,468	457,515

Note:

(i) Various local government grants have been granted to reward the Group for its contributions to the local economy and relieve the Group's burdens of its operational challenges related to COVID-19. 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 Sdn. Bhd. mainly in Malaysia, the Group has a single operating and reportable segment – the operation and management of department stores mainly in the PRC and Laos. Except for credit services, revenues from external customers are generated mainly in the PRC and all significant operating assets of the Group are located in the PRC and Laos.

As the consumer financing business in Malaysia and other companies out of the PRC do not have a material impact on the Group's results based on a measure of revenues, profit and total assets, for management purpose, there is no need to disclose a separate operating and reportable segment.

6. LOSS BEFORE TAX

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

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**2,214,507**	2,270,490
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	**449,757**	488,148
Pension scheme contributions	**12,212**	58,193
Social welfare and other costs	**78,372**	110,065
	540,341	656,406
Directors' remuneration	**6,827**	10,235
	547,168	666,641
Depreciation and amortisation	**690,353**	696,674
Impairment of trade receivables	**9,299**	14,871
Impairment/(reversal of impairment) of prepayments and other receivables	**20,816**	(43)
Impairment of property, plant and equipment	**31,184**	–
Impairment of intangible assets other than goodwill	**1,652**	–
Foreign exchange differences, net	**(1,956)**	25,719
Lease payments not included in the measurement of lease liabilities	**74,512**	113,933
Losses/(gains) on disposal of property, plant and equipment, net	**5,341**	(43,703)
Auditor's remuneration	**4,273**	3,913
Gross rental income in respect of investment properties	**(786)**	(3,807)
Lease income in respect of sublease of properties under operating lease:		
Minimum lease payments *	**(217,439)**	(254,723)
Contingent lease payments **	**(99,393)**	(99,422)
	(316,832)	(354,145)
Total gross rental income	**(317,618)**	(357,952)
Direct operating expenses arising from rental-earning investment properties	**1,335**	664

* Minimum lease payments include the 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.

7. FINANCE INCOME/COSTS

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Finance income:		
Bank interest income	**65,412**	33,809
Gain on redemption of financial assets at fair value through profit or loss	**5,713**	11,497
Change of fair value of financial assets at fair value through profit or loss	**1,789**	1,515
Interest income on the net investments in subleases	**27,008**	28,590
	99,922	75,411
Finance costs:		
Interest expense on lease liabilities	**(429,898)**	(425,040)
Interest-bearing bank loans	**(140,011)**	(237,838)
	(569,909)	(662,878)
Finance costs, net	**(469,987)**	(587,467)

8. INCOME TAX EXPENSE

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

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

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax	**167,532**	166,336
Deferred income tax	**(48,314)**	(11,268)
	119,218	155,068

9. 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 (2019: 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 2020 and 2019.

10. FINAL DIVIDEND

The Board has resolved not to declare any final dividend for the year ended 31 December 2020 (2019: nil).

11. TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current		
Third party	**267,790**	266,949
Joint venture	**328**	194
Associate	**–**	350
Impairment	**(4,643)**	(1,957)
	263,475	265,536
Non-current		
Third party	**99,627**	85,388
Impairment	**(2,443)**	(6,906)
	97,184	78,482
	360,659	344,018

Trade receivables 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Among the balance, RMB281,900,000 arising from credit services are with an interest rate of 9% to 19% depending on the payment term of loan receivables, while others are interest-free.

Included in the balance as at 31 December 2020 were trade receivables from the joint venture and an associate of approximately RMB328,000 (31 December 2019: RMB194,000) and nil (31 December 2019: RMB350,000), respectively, which are attributable to the consultancy fee income of the Group. These balances are unsecured and interest-free.

As at 31 December 2020, the Group pledged trade receivables of RMB211.7 million (31 December 2019: nil) to secure certain of the Group's interest-bearing bank loans. In addition, the Group has pledged unrealized receivable of RMB44.3 million which will be due within 48 months to secure certain of the Group's interest-bearing bank loans as of 31 December 2020.

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	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**263,475**	265,536
1 to 2 years	**66,224**	64,537
Over 2 years	**30,960**	13,945
Total	**360,659**	344,018

12. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**934,718**	1,059,831
4 to 12 months	**28,140**	48,663
Over 1 year	**16,863**	28,069
	979,721	1,136,563

13. 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, 20 May 2021 (the "AGM"), the register of members of the Company will be closed from Friday, 14 May 2021 to Thursday, 20 May 2021, 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, 13 May 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the Group's annual results for the year ended 31 December 2020 (the "year under review"). Compared to 2019, the overall performance of the Group in 2020 declined as a result of the negative impact brought upon by COVID-19 pandemic which the Group has actively adopted cost control measures to reduce its impact. Meanwhile, the Group is committed to strengthening its position as a leading retailer of fashion and lifestyle concepts in China through a diversified development strategy.

Economic Review

2020 had been full of challenges and uncertainties for the global market. The global outbreak of COVID-19 at the start of the year had caused significant reduction and suspension of social and economic activities which inevitably caused the global economy to face downward pressure. In addition to this, the continuous tension of Sino-US trade relations brought many uncertainties to the global economic and political environment. Despite these challenges, China's economy had withstood the pressure, demonstrated strong recovery and had taken the lead in containing the pandemic. According to the latest data released by the National Bureau of Statistics of China, China's GDP reached 101,598.6 billion in 2020, an increase of 2.3% from 2019.

Although China's overall economic environment is gradually picking up, the domestic retail market is still under pressure. In the first half of the year, the retail market was the first to bear the brunt of the impact of COVID-19 as local governments imposed restrictions on the flow of people in public areas, especially in restaurants and department stores, to prevent the spread of the virus. In the second half of the year, despite having achieved effective control over the virus outbreak, due to the uncertainty of the economic environment, Chinese consumers have become more cautious in their consumption. According to data recently released by the National Development and Reform Commission of China, the total retail sales of consumer goods in China in 2020 decreased by 3.9% year-on-year.

However, compared with other markets, the retail market is an industry with stronger anti-risk capabilities. As the living standards of people continue to improve, consumption will continue to be the primary driving force for China's economic growth in the future, and the Group remains positive about the prospects of the entire industry. To this end, the Group will continue to strive to improve customer experience through harnessing consumption trends, in order to fully capitalise on potential opportunities provided by the Chinese retail market. Meanwhile, the Group will initiate a variety of operation modes to diversify the income sources, establish online and offline sales channels, and promote the long-term sustainable development of the Group.

Business Review

During the year under review, the Group recorded total GSP of RMB11,225.6 million (including value-added tax), a decrease of 20.8% from last year, mainly due to the decline in same-store sales. SSS decreased by 18.7% during the year under review, mainly due to the impact of the COVID-19 pandemic. During the year under review, the total operating revenue of the Group decreased by RMB597.7 million or 11.9% to RMB4,428.3 million, and the overall gross margin for sales fell to 15.3%, compared with 16.0% in 2019. Operating profit was RMB349.0 million, a decrease of 26.5% over the same period last year.

Although the Group, like the overall retail market, in 2020, was challenged by the COVID-19 pandemic and its negative economic impact, the Group has been actively adopting a number of cost control measures, including the reduction of rent and operating costs. The Group is also actively promoting the retail market business and enhancing consumer experience through diversified channels. For example, during the VIP Day event that was held, the Group used the latest 'cloud' technology to introduce a live broadcast model in 34 stores across the country to fully enhance the shopping experience for customers. At the same time, through the offering of high-quality membership services and time-limited benefits to stimulate consumption, the sales of most of the Group's stores have returned to more than 80% level. In the face of adversity, the Group, with its leading vision and unique retail strategy, is determined to overcome and emerge stronger from these challenges.

As of 31 December 2020, the Group operated and managed 40 Parkson stores (including the concept store "Parkson Beauty"), 1 Lion Mall, and 2 Parkson Newcore City Malls, in 28 cities in China; with its supermarkets, apparel and F&B outlets having evolved into a mature and complete retail industry landscape.

Strong alliance and collaboration for new opportunities

To diversify and strengthen its base, the Group has been actively seeking different business partners, using flexible business cooperation models to achieve strong alliances, and exploring new markets and new business opportunities. In May 2020, the Group sealed its cooperation with Jinjin Changfa Group, a well-known commercial brand in Suzhou City, Jiangsu Province, to comprehensively upgrade and renovate Suzhou Changfa Commercial Building, which has a long history and is located in the core business district of Gusu District, Suzhou City. The project will integrate leading fashion lifestyle retail concepts with the "Su" lifestyle experience to meet the needs of different consumer groups. This cooperation marks the Group's formal entry into the core market of Suzhou. The strong attraction of the Suzhou market, the conducive business environment in Gusu District, and the huge development prospects of the local consumer service market provide a strong impetus for the Group to locate in Suzhou. Combining Jinjin Changfa Group's huge customer base with the Group's rich commercial retail management experience, the Group is confident that the project will become a new benchmark for "business, tourism and culture" in Gusu District.

In addition, the Group and Wuzhou Sanqi Investment Company Limited formally signed a cooperation agreement in June 2020 to jointly build a large-scale urban complex – "Wuzhou Sanqi Parkson", a new cultural landmark integrating office, residence, hotel, F&B, retail, and entertainment. Wuzhou Sanqi Parkson will serve as the fourth store of the Group in Guangxi Zhuang Autonomous Region, and is scheduled to open in the coming year. Since Guangxi Zhuang Autonomous Region is a crucial gateway for the "Belt and Road" Initiative and an important stop for the "New International Land-Sea Trade Corridor", the advanced structure of the Guangxi market has become significant for the Group to drive the overall development of the retail business into the southwest region. The establishment of Wuzhou Sanqi Parkson is in line with the Group's development strategy in the region, and will be able to generate regional synergies and expand its influence to the surrounding areas.

Promoting diversified and innovative development

As one of China's leading advocates of fashion lifestyle retail concepts, Parkson has been committed to building an outstanding reputation, maintaining its customer base, and attracting new customers, through diversifying its products and improving consumer experience. During the year under review, the Group strategically expanded its product categories to meet growing consumer needs.

The Group pays close attention especially to the development trend of the beauty market, and implements targeted development strategies for the promising beauty sector, including cooperation with a number of well-known beauty brands to launch exclusive products in conjunction with customized service experiences to attract more young consumers. Among them, Parkson's self-operated makeup brands namely Parkson Beauty and Play Up have become immensely popular among young consumers through differentiated product strategies. Parkson hopes to deepen its image as a trendy vendor and explore the possibility of more branch stores.

The Group is also actively adopting a variety of modes to improve the shopping experience for customers. For example, the Group's Lion Mall together with its boutique supermarkets, Parkson Supermarket and Hogan Bakery, had participated in the "Singaporean Night Market" held in Shanghai. This event not only broke away from the traditional sales model, it also narrowed the gap between the vendor and its customers, allowing them to interact more closely, and creating a whole new experience.

At the same time, the Group evaluates and adjusts its resources in a timely manner in order to use them more effectively to achieve diversified business development. During the year under review, the Group continued to promote the renovation project of the North Building of Beijing Fuxingmen Parkson Store, which is expected to be completed in the middle of 2021. The Group believes that Fuxingmen North Building, being part of Beijing Financial Street, can meet the demand for office leases in this area and is expected to bring stable rental income to the Group.

Expanding multi-channel services with "O2O New Retail Strategy"

In recent years, advancement of the Internet has accelerated the development of online retail, with the retail industry having entered a new business mode of "online + offline" interoperability. In order to seize the growing opportunities of online retail, the Group vigorously promoted the "O2O New Retail Strategy" and improved the new sales model for online and offline interoperability. To this end, the Group has introduced various stimulus measures to promote offline retail business growth through online channels such as Parkson's official WeChat account and mobile shopping mini-programs. In tapping customers' enthusiasm for consumption, the Group seizes the opportunity to encourage customers to visit Parkson stores in order to enhance their shopping experience.

Outlook & Future Plans

With the conclusion of the US presidential election and the Biden administration coming to power, there is still a lot of ambiguity regarding Sino-US relations. Along with the ongoing COVID-19 crisis, the macroeconomic environment is expected to be unsettling in the coming year. Nevertheless, the Group remains optimistic about the performance of China's retail industry. As the COVID-19 situation in China stabilizes and the local retail market moves forward to gradual recovery, consumers are beginning to regain their inclination to spend. The inability to travel abroad due to the pandemic has in turn benefited local consumption.

To fully grasp the opportunities brought by market recovery, the Group will actively study and understand market trends and customer needs, broaden the product range of Parkson retail stores, and provide customers with a more diverse array of high-quality products in the future. The Group will also strengthen online marketing to attract offline retail sales. To this end, the Group will vigorously implement the "O2O New Retail Strategy", and strengthen the integration of online and offline retail experience, through social media networks (such as Douyin, WeChat), VIP projects and personalized customer services to satisfy retail industry changes and market demand, and expand market share through high-quality products and services.

In the face of the Sino-US situation as well as the instability of the macro economy, the Group is actively looking for business partners of high standing and repute. Through such cooperation, the Group aims to explore new business opportunities, strengthen its business portfolio, so as to consolidate the Group's position as China's leading retailer of lifestyle concepts.

We believe that with the Group's effective business strategies and extensive experience in the retail market over the past two decades, we can achieve sustainable performance in a challenging environment and create long-term value for shareholders.

FINANCIAL REVIEW

GSP and operating revenues

During 2020, 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 20.8% year-on-year to RMB11,225.6 million (inclusive of value-added tax), mainly due to decrease in total merchandise sales resulting from the decline in SSS. SSS decreased by 18.7% in 2020.

Total merchandise sales

	For the year ended 31 December				Year-on-year
	2020		2019		**change** *(%)*
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Concessionaire sales	**6,612,704**	**71.7%**	8,963,992	76.8%	(26.2%)
Direct sales	**2,608,000**	**28.3%**	2,712,119	23.2%	(3.8%)
	9,220,704	**100.0%**	11,676,111	100.0%	(21.0%)

Total merchandise sales decreased by RMB2,455.4 million or 21.0% to RMB9,220.7 million (net of value-added tax) in 2020. Concessionaire sales which constituted 71.7% of our total merchandise sales in 2020 decreased by 26.2% as compared to 2019; direct sales decreased by 3.8% as compared to 2019. The decreased in concessionaire sales in 2020 as compared to 2019 mainly due to the impact of the outbreak of COVID-19 in early 2020 which has seriously affected the customer traffic.

Merchandise gross margin

The Group's merchandise gross margin (a combination of concessionaire commission rate and the direct sales gross margin) decreased from 16.0% in 2019 to 15.3% in 2020.

Total operating revenues

Total operating revenues of the Group decreased by RMB597.7 million or 11.9% to RMB4,428.3 million in 2020. The decrease in total operating revenues was mainly due to the decrease in the revenue from contracts with customers, which constituted 82.0% of the total operating revenue in 2020, decreased by RMB520.5 million or 12.5% compared to 2019. The revenue from contracts with customers consists of sales of goods from direct sales, commissions from concessionaire sales and consultancy and management service fees.

Operating expenses

Purchase of goods and changes in inventories

The purchase of goods and changes in inventories represented the cost of sales for direct sales. Cost of sales decreased by RMB56.0 million or 2.5% from RMB2,270.5 million in 2019 to RMB2,214.5 million in 2020. The decrease was primarily due to decrease in our procurement of goods from third party vendors, resulting from the decreased direct sales.

Staff costs

Staff costs decreased by RMB119.4 million or 17.9% to RMB547.2 million in 2020 from RMB666.6 million in 2019. This decrease was mainly due to the decrease in pension scheme contributions, unemployment insurance and work-related injury insurance as a result of the government policy of social welfare exemption to support enterprises in response to COVID-19 pandemic. On a same store basis, staff costs decreased by 16.5%.

Staff costs as a percentage of GSP increased from 5.3% in 2019 to 5.5% in 2020.

Depreciation and amortisation

Depreciation and amortisation decreased by 0.9% from RMB696.7 million in 2019 to RMB690.4 million in 2020. In 2020, RMB467.8 million of depreciation expense on the right-of-use assets was charged to depreciation and amortization compared to RMB456.9 million in 2019. On a same store basis, depreciation charges decreased by 6.2%, mainly due to fully depreciated assets in some stores.

Rental expenses

Rental expenses of the Group were a negative amount of RMB13.9 million in 2020, a turnaround decrease of RMB127.9 million or 112.2% as compared to rental expenses of RMB113.9 million in 2019. Under IFRS 16, rental expenses primarily represent the variable rents we pay to third party lessors. In accordance with Amendment to IFRS 16 – COVID-19-Related Rent Concessions issued by the IASB on 28 May 2020, the Group, as a lessee, applying the practical expedient to the rent concessions that occur as a direct consequence of the COVID-19 pandemic, accounted for a forgiveness or waiver of lease payments as a variable lease payment. Since the outbreak of COVID-19, the Group has taken active negotiations with landlords for rental reduction during this challenging period. In 2020, amount of RMB88.4 million was deducted in rental expenses to reflect changes in lease payments that arise from rent concessions to which the practical expedient is applied. On a same store basis, rental expenses decreased by 116.5% in 2020.

Rental expenses as a percentage of GSP were (0.1%) in 2020, as compared to 0.9% in 2019.

Other operating expenses

Other operating expenses which consist primarily 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 20.2% to RMB641.3 million in 2020 from RMB803.8 million in 2019 as a result of further implementing cost control measures. On a same store basis, other operating expenses decreased by 12.9%.

Other operating expenses as a percentage of GSP maintain stable as 6.4% in 2020 as compared to 2019.

Profit from operations

The Group generated a profit from operations of RMB349.0 million for 2020, a decrease of RMB125.5 million or 26.5% compared to RMB474.5 million recorded in 2019.

Profit from operations as a percentage of GSP decreased from 3.8% in 2019 to 3.5% in 2020.

Finance income/costs

The Group incurred net finance costs of RMB470.0 million in 2020 which represented a decrease of RMB117.5 million or 20.0% compared to RMB587.5 million in 2019. In 2020, RMB430.0 million of interest expense on the lease liability was charged to finance costs compared to RMB425.0 million in 2019; and RMB27.0 million of interest income on the net investments in sublease was recognized in finance income compared to RMB28.6 million in 2019 under IFRS 16.

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 RMB2.0 million in 2020 from RMB13.6 million in 2019. This decrease was primarily due to the COVID-19-related disruption on operation of the department store resulting in the decline in sales.

Share of profits of associates

This is the share of results from the Group's associated companies. The share of profits from associates decrease to RMB1.3 million in 2020 from RMB7.1 million in 2019. This decrease was also primarily due to the negative impact of COVID-19 disruptions.

Loss before tax

Loss before tax increased by 142.1% from RMB48.6 million to RMB117.7 million in 2020. This increase in loss before tax was primarily due to decreased revenue.

Loss before tax as a percentage of GSP was 1.2% in 2020 as compared to 0.5% in 2019.

Income tax expense

The Group's income tax expense decreased by 23.1% to RMB119.2 million in 2020 from RMB155.1 million in 2019, mainly due to the decrease in taxable profit.

Loss for the year

As a result of the foregoing, our loss for the year increased by RMB33.2 million to RMB236.9 million in 2020 from RMB203.7 million in 2019.

Loss attributable to owners of the parent

Loss attributable to the owners of the parent increased from RMB222.8 million in 2019 to RMB250.1 million in 2020.

Liquidity and financial resources

As at 31 December 2020, the Group had cash and cash equivalents of RMB1,499.3 million (31 December 2019: RMB2,265.5 million), time deposits of RMB834.7 million (31 December 2019: RMB1,727.4 million), financial assets at fair value through profit or loss of RMB242.5 million (31 December 2019: RMB250.8 million) and investments in principal guaranteed deposits of RMB15.6 million (31 December 2019: RMB250.1 million).

The Group's cash and cash equivalents are mainly denominated in Renminbi with the remaining denominated in US dollars, Hong Kong dollars and others.

Total debt to total assets ratio of the Group was 20.4% as at 31 December 2020.

Current assets and net assets

The Group's current assets as at 31 December 2020 was RMB3,317.1 million. Net assets of the Group as at 31 December 2020 decreased by 3.3% to RMB4,201.0 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 2020, the balance of these products was RMB15.6 million, accounting for approximately 0.1% 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 2020, the fair value of these products was RMB242.5 million, accounting for approximately 1.7% of the total assets of the Group.

Pledge of Assets

As at 31 December 2020, the Group has pledged deposits of RMB700.3 million, pledge trade receivables of RMB211.7 million, pledged buildings, investment properties and leasehold land with a net carrying amount of approximately RMB2,411.7 million, RMB362.1 million and RMB357.0 million respectively to secure general bank loans. The Group has pledged unrealized receivables of RMB44.3 million which will be due within 48 months to secure the general interest-bearing bank loans. In addition, the Group has pledged deposits of RMB31.4 million held in designated bank accounts for performance guarantee.

Other than the aforesaid, no other assets are pledged to any bank or lender.

EMPLOYEES

As at 31 December 2020, total number of employees for the Group was 5,251. 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 2020, 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. The Company had not appointed a Chief Executive Officer, certain functions of CEO have been undertaken by Tan Sri Cheng Heng Jem, the Executive Director and Chairman of the Company. The Company has deviated from Code Provision A.2.1 of the CG Code during the year ended 31 December 2020. 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.

Meanwhile, following the resignation of Ko Desmond as an independent non-executive director on 30 November 2020, the Company has failed to meet the requirement under Rules 3.10(1) and 3.10(2) and 3.21 of the Listing Rules. The Board is making its best endeavours to identify suitable candidate(s) to fill the vacancies as soon as practicable, with the relevant appointment to be made within three months from the date of resignation to meet the requirements under the Listing Rules and the terms of reference of the respective board committees.

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 2020.

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 2020, including the accounting principles and policies adopted by the Group. The Committee comprises the non-executive director and two independent non-executive directors of the Company.

PUBLICATION OF FINAL RESULTS

This announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The 2020 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

22 February 2021

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 and Mr. Yau Ming Kim, Robert.