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

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS

Total Gross Sales Proceeds ("GSP") increased by 14.1% to RMB14,105.6 million.

Same Store Sales [1] ("SSS") recovered to 11.4%.

Profit from operations increased to RMB1,467.9 million. Excluding the impact of the employee share options expense, on a comparable basis, profit from operations increased by 13.5% to RMB1,509.7 million.

Net profit attributable to the Group for the year increased to RMB991.8 million. Excluding the impact from the employee share options expense, on a comparable basis profit attributable to the Group increased by 13.5% to RMB1,033.6 million.

Earnings per share was approximately RMB0.353.

Proposed final dividends of approximately RMB281.0 million or RMB0.10 per share.

(1) Year on year change in total gross sales proceeds for stores in operation throughout the entire comparative period after adjusting for the impacts from the change of contractual relationship with certain suppliers of jewelry products and cigarette products from concessionaire contracts to lease agreements

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

The Board of Directors of Parkson Retail Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December, 2010 with comparative figures for the year 2009 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December 2010 *RMB'000*	2009 *RMB'000*
Revenues	4	3,819,375	3,461,266
Other operating revenues	4	580,703	447,368
Total operating revenues		4,400,078	3,908,634
Operating expenses			
Purchases of goods and changes in inventories		(1,098,954)	(1,041,852)
Staff costs		(359,483)	(275,960)
Depreciation and amortization		(179,962)	(166,223)
Rental expenses		(575,687)	(500,354)
Other operating expenses		(718,065)	(594,052)
Total operating expenses		(2,932,151)	(2,578,441)
Profit from operating activities	5	1,467,927	1,330,193
Finance income / (cost), net	6	(140,330)	(107,004)
Share of profit from an associate		311	577
Profit before income tax		1,327,908	1,223,766
Income tax	7	(304,251)	(286,412)
Net profit for the year		1,023,657	937,354
Attributable to:			
Equity holders of the parent		991,808	910,846
Minority interests		31,849	26,508
		1,023,657	937,354
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic		RMB0.353	RMB0.325
Diluted		RMB0.353	RMB0.325
DIVIDENDS			
Interim		170,000	141,000
Proposed final	9	281,038	280,722
		451,038	421,722
DIVIDENDS PER SHARE			
Interim		RMB0.060	RMB0.050
Proposed final	9	RMB0.100	RMB0.100
		RMB0.160	RMB0.150

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2010	**2009**
	RMB'000	*RMB'000*
Profit for the year	1,023,657	937,354
Net (loss)/gain on cash flow hedges	(16,006)	(120,430)
Exchange differences on translation of foreign operations	4,562	1,453
Other comprehensive (loss)/income for the period, net of tax	(11,444)	(118,977)
Total comprehensive income for the period, net of tax	1,012,213	818,377
Attributable to:		
Equity holders of the parent	980,364	791,869
Minority interests	31,849	26,508
	1,012,213	818,377

CONSOLIDATED STATEMENT OF FINANCIAL POSISTION

	Notes	**As at 31 December** **2010** *RMB'000*	**2009** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		2,493,773	2,445,354
Investment properties		51,357	52,565
Lease prepayments		500,996	514,309
Intangible assets		2,172,242	2,101,506
Investment in an associate		2,110	2,232
Other assets		39,685	58,516
Held-to-maturity investments, unlisted		-	1,365,640
Derivative financial instruments designated as hedging instruments		8,819	-
Deferred tax assets		53,591	41,586
Total non-current assets		5,322,573	6,581,708
CURRENT ASSETS			
Inventories		233,814	179,911
Trade receivables	10	19,986	28,655
Prepayments and deposits		188,509	194,173
Other receivables		263,761	233,554
Held-to-maturity investments, unlisted		1,324,540	-
Investment in principal guaranteed deposits		2,810,238	809,170
Cash and short-term deposits		2,427,888	3,046,929
Total current assets		7,268,736	4,492,392
CURRENT LIABILITIES			
Interest-bearing bank loans		(1,302,000)	-
Trade payables	11	(1,721,277)	(1,526,436)
Customers' deposits		(863,191)	(688,186)
Other payables and accruals		(650,172)	(778,369)
Tax payable		(106,246)	(80,439)
Senior guaranteed notes due November 2011		(1,318,381)	-
Senior guaranteed notes due May 2012, redeemable in 2010		-	(845,089)
Derivative financial instruments designated as hedging instruments		(25,902)	(93,011)
Total current liabilities		(5,987,169)	(4,011,530)
NET CURRENT ASSETS		1,281,567	480,862
TOTAL ASSETS LESS CURRENT LIABILITIES		6,604,140	7,062,570

		As at 31 December	
	Notes	**2010**	**2009**
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		-	(1,303,000)
Long term payables		(117,492)	(105,891)
Deferred tax liabilities		(238,730)	(249,192)
Senior guaranteed notes due November 2011		-	(1,353,033)
Term loan facilities		(1,615,130)	-
Derivative financial instruments designated as hedging instruments		(43,637)	(59,309)
Total non-current liabilities		(2,014,989)	(3,070,425)
NET ASSETS		4,589,151	3,992,145
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		58,352	58,297
Reserves		4,453,888	3,861,781
		4,512,240	3,920,078
Minority interests		76,911	72,067
TOTAL EQUITY		4,589,151	3,992,145

NOTES

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability on 3 August 2005. The Company's ultimate holding company is Parkson Holdings Berhad ("PHB"), a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad.

The Company acts as an investment holding company. The principal activities of its subsidiaries are the operation of department store business in the People's Republic of China ("PRC").

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the company for the year ended 31 December 2010 (the "Financial Statements") have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

3. GROSS SALES PROCEEDS

	For the year ended 31 December	
	2010	**2009**
	RMB'000	RMB'000
Sales of goods – direct sales	1,328,177	1,253,143
Concessionaire sales	12,008,169	10,480,916
Total merchandise sales	13,336,346	11,734,059
Others (including consultancy and management service fees, rental income and other operating revenues)	769,221	633,435
Total gross sales proceeds	14,105,567	12,367,494

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION

	For the year ended 31 December	
	2010	**2009**
	RMB'000	RMB'000
Sales of goods – direct sales	1,328,177	1,253,143
Commissions from concessionaire sales	2,302,680	2,022,056
Rental income	168,551	158,822
Consultancy and management service fees	19,967	27,245
Other operating revenues	580,703	447,368
Total operating revenues	4,400,078	3,908,634

Revenues are recognised to the extent that it is probable that the economic benefits of a transaction will flow to the Group. Revenues are categorised to include the sales of goods - direct sales, the commissions from concessionaire sales, the consultancy and management service fees, the rental income and the other operating revenues.

Segment information

For management purposes, the Group has a single operating and reportable segment – the operation and management of department stores in the PRC. All revenues from external customers are generated in the PRC and all significant operating assets of the Group are located in the PRC.

Note: Other operating revenues

		For the year ended 31 December	
		2010	**2009**
	Notes	RMB'000	RMB'000
Promotion income		74,815	66,362
Administration and credit card handling fees		238,276	209,201
Government grants	(i)	16,872	12,638
Other incomes		250,740	159,167
		580,703	447,368

Notes:

(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.

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	For the year ended 31 December	
	2010	**2009**
	RMB'000	RMB'000
Cost of inventories recognised as expenses	1,098,954	1,041,852
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	209,847	181,211
Pension scheme contributions	31,410	30,120
Social welfare and other costs	73,356	62,016
Equity-settled share option expenses	35,192	-
	349,805	273,347
Depreciation and amortization	179,962	166,223
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	362,975	310,495
Contingent lease payments *	212,712	189,859
	575,687	500,354
Loss on disposal of items of property, plant and equipment	876	1,585
Auditors' remuneration	4,579	5,767
Gross rental income in respect of investment properties	(16,790)	(19,846)
Sub-letting of properties:		
Minimum lease payments #	(67,959)	(61,404)
Contingent lease payments *	(83,802)	(77,572)
	(151,761)	(138,976)
Total gross rental income	(168,551)	(158,822)
Direct operating expenses arising on rental-earning investment properties	1,208	5,264
Foreign exchange differences, net	(25,663)	176

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

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

6. FINANCE COST, NET

	For the year ended 31 December	
	2010	**2009**
	RMB'000	RMB'000
Interest expenses on bank and other loans, wholly repayable within five years	(354,260)	(317,980)
Interest income	213,930	210,976
	(140,330)	(107,004)

7. INCOME TAX

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 operates.

An analysis of the provision for tax in the Financial Statements is as follows:

	For the year ended 31 December	
	2010	**2009**
	RMB'000	RMB'000
Current income tax	326,718	283,090
Deferred income tax	(22,467)	3,322
	304,251	286,412

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB991,808,000 and the weighted average number of 2,808,249,374 shares in issue during that year.

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB910,846,000 and the weighted average number of 2,802,528,953 shares in issue during the year.

The calculation of diluted earning per share takes into account on the effects of employee share options granted on 10 January 2007 and 1 March 2010.

9. PROPOSED FINAL DIVIDENDS

The Board of Directors recommended the payment of a final dividend for the year of 2010 of RMB0.100 (2009: RMB0.100) in cash per share. The Company declared and paid an interim dividend of RMB0.060 (2009: RMB0.050) in cash per share. On the assumption that the approval is obtained during the forthcoming annual general meeting for the payment of the proposed final dividends, the Company shall be paying a full year dividends of RMB0.160 (2009: RMB0.150) in cash per share for the year 2010, representing approximately 45.5% of the 2010's net profit attributable to the Group. The final dividend will be paid in Hong Kong dollars, such amount is to be calculated by reference to the middle rate published by People's Bank of China for the conversion of Renminbi ("RMB") to Hong Kong dollars as at 20 May 2011.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividends will be payable on or about 30 June 2011 to the shareholders whose name appears on the Register of Members of the Company at the close of business on 20 May 2011.

10. TRADE RECEIVABLES

Trade receivables are mainly consultancy and management service fees receivables from the "Parkson" branded managed stores. A provision for doubtful debts is made when it is considered that the trade receivables may not be recoverable.

An aged analysis of the trade receivables is as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	RMB'000
Within 3 months	7,422	5,888
3 to 12 months	7,685	14,389
Over 1 year	4,879	8,378
	19,986	28,655

Included in the balance were trade receivables from jointly-controlled entities of RMB253,000 (2009: RMB701,000) and from fellow subsidiaries of RMB4,063,000 (2009: RMB13,503,000) which attributable to the management and consultancy fee income of the Group. Such balances were unsecured and interest-free.

11. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	RMB'000
Within 3 months	1,622,333	1,421,925
3 to 12 months	68,240	79,379
Over 1 year	30,704	25,132
	1,721,277	1,526,436

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from 16 May 2011 to 20 May 2011 (both dates inclusive), during such period no transfer of shares will be registered. In order to qualify for the proposed final dividends, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4.30pm on 13 May 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Review

The world economy continued to recover modestly from the recession started in the year 2008. Major economies experienced varying pace of recovery with arguably slower pace of recovery for the major developed economies compared with the major developing economies such as the BRICs (Brazil, Russia, India and China).

The path of recovery has not been smooth and major economies have been facing contrasting challenges that required different fiscal policy and monetary policy response. For example, selected European countries that elected for international financial assistance have to agree on major adjustment to its fiscal policy to narrow its budget deficit. The persistently high unemployment rate and weak housing market forced the American government to introduce further quantitative easing or better known as QE2 to encourage investment and consumer spending in order to keep its economy growing. The inflationary pressures and asset price bubble in selected major developing economies such as the PRC and India has called for reorientation of its fiscal measures and tightening of monetary supplies.

PRC economy was arguably one of the best performing major economies in the past 2 years. Powered by the government's proactive, speedy and effective fiscal response and expansionary monetary policy, its economy has not only avoided falling into recession even during the height of the crisis but continued to achieve strong growth. In fact the momentum of its economic growth was so strong that at the beginning of the year, the PRC economy appeared to be in danger of overheating which called for the government's decisive move to start unwinding and adjusting many of its crisis response measures to avoid unwelcomed long term damages to its economy. The required reserve ratio or better known as RRR for the commercial banks increased several times in the past 12 months to a historical high of 19.0% for most major banks in the country, the benchmark lending rate increased to 5.81%, tightening measures have been imposed on the property market, restriction introduced for investment into industries that are facing excess capacity and Renminbi (RMB) has been allowed to resume its gradual upward trend. These counter measures are important to discourage investments of speculative nature and help to contain the inflationary pressures to lay the foundation for stable and sustainable economic growth going forward.

In contrast to the year 2009 where the economic growth was predominantly driven by the extraordinary growth of fixed asset investment and infrastructure spending, the economic growth last year was more balanced with growth recorded across all three major sectors of the economy. Export sector which suffered a sharp decline in the year 2009, recorded a 34.7% expansion last year, the fixed asset investments recorded a real growth rate of 23.8% and the domestic consumption maintaining a steady real growth rate of 14.8% during the same period.

In line with the economic recovery and stronger consumption sentiment, the Group continued to achieve better productivity and recorded stronger SSS growth in its stores. GSP expanded 14.1% with our reported SSS growth recovering to 11.4% compared to 7.5% recorded in the year 2009.

Despite opening 7 new stores with substantially lower merchandise gross margin in the last 15 months, the Group managed to maintain its overall merchandise gross margin of 19.0% as the improved market condition and consumer sentiment enable the Group to continue scaling down its discount activities for existing stores.

On a same store basis, the merchandise gross margin improved by 0.11% compared to the same period of last year.

As a percentage to GSP, profit margin from operating activities dropped to 10.4% compared to 10.8% recorded in the year 2009 mainly due to weak performance of new stores and exceptional items such as the employee share options expense and the city development and educational surcharge. Excluding the performance of new stores but including the exceptional items, the profit margin from operating activities on a same store basis improved to 11.4% compared to 11.09% recorded in the year 2009.

As part of our continuous efforts to enhance store's image and improve productivity, we reinvented and remodeled the Hefei store and Xi'an Shidai store during the year, after which premium cosmetic brands and up market fashion brands were introduced to the stores. The remodeling works on Xinjiang store is still on going and is expected to complete in the year 2011. Our flagship stores in Nanning and Nanchang are targeted for similar exercises in the year 2011.

The concessionaire sales increased by 14.6% during the year and accounted for approximately 90.0% of the total merchandise sales and the direct sales increased by 6.0% and accounted for approximately 10.0% of the total merchandise sales.

The Group opened 4 new stores in the year 2010 with aggregated gross floor area of approximately 140,000 square meters. The Group expanded its network coverage to Zhejiang province through the opening of Shaoxing store in the month of May 2010. The Beijing Sun Palace store, Wuxi New District store and Hefei Yaohai store were officially opened in the final quarter of the year. Our first store in Zigong, Sichuan province, which was originally scheduled to open in the month of December 2010 was delayed and has opened in January 2011.

In line with the Group's stated strategy, the Shantou managed store with a total gross floor area of approximately 17,336 square meters was acquired from PHB in the month of November 2010. The relatively smaller Yangzhou store where the location is no longer desirable for department store operation was disposed off during the year and as at the end of the year the Group operates 46 stores across 30 major cities of which 39 are self owned stores and 7 are managed stores.

During the year under review, the Group raised US$250.0 million through the syndicated loan market. The 3 years syndicated loan carries a fixed finance charge (inclusive of the amortzation of relevant issuing cost) of approximately 2.51% per annum after the Group entered into relevant interest rate swap and cross currency swap to hedge its exposure against the interest rate and currency fluctuation. Part of the proceeds from the syndicated loan was used to fund the early redemption of the US$125.0 million 7.125% High Yield Notes 2012 ("HYN2012") and the balance will be used for general corporate needs.

Prospect

The mixed but improving economic indicators seems to suggest that the world economic recovery has taken hold. However, the occasionally weak and contrasting economic data seems to signal that the recovery remain modest and vulnerable. Challenges and uncertainties remain, recovery in the major economies have been uneven that called for different fiscal and monetary response that very often contradicting each other. In this age of globalisation, actions taken by one major economy might have significant impacts for other major economies that if not well understood and tolerated might result in undesirable consequences such as the currency war, trade war and trade protectionism that will add burdens and uncertainties to the already weak and fragile recovery.

Being the second largest economy in the world and the largest developing economy, the PRC economy is now more connected and more important than ever to the world economy. In fact, the quick recovery of the world economy from the financial crisis induced recession started in the developed economies was partly attributable to the strong performance of the PRC economy.

It is undeniable that the PRC economy going forward will play an increasingly important and influential role to the development of the world economy and given its increasingly open economy, the sustainability of its own growth will also become more vulnerable to the external factors. The challenge to PRC now is to continue working on transforming its economic growth model that will be powered by its consumers and at the same time, its fiscal and monetary policy while continue to focus on its own needs will also have to consider the impact to the world economy.

Looking forward, the Group believes that the PRC economy will continue to lead and contribute to the world economic growth in the foreseeable future. Fiscal measures will be further reoriented to spur domestic consumption while the exchange rate of RMB will be managed delicately to ensure reflection of its fundamental, monetary supplies will be controlled and approval of investments will be carefully considered.

The Group believes that domestic consumption will lead the economic growth in PRC over the next decade. Given the size and continuous expansion of its economy, increasing urbanization and continuous emergence of middle class, improved social safety net and an economic growth model that will be powered by its consumers, the Group believes that PRC domestic consumption market is entering into a “Golden Era” of strong growth. On the back of such expectation, the Group is excited about the opportunity and prospect of its business operation and will accelerate its expansion program. In this respect, the Group is targeting to open 8 to 10 new stores annually for the year 2011 and the year 2012 to capitalise on the fast growing domestic consumption market. The Group has either signed the lease agreement or entered into a memorandum of understanding or in the final stage of negotiation for a total of 22 locations.

The Group is accelerating its expansion plan and is targeting to add on average 20.0% new operating area to its portfolio annually. In this respect, the Group will focus on improving its market share in existing markets or entering into nearby markets by leveraging on the strength of its flagship store in cities or markets which the Group has established a strong presence with strong brand equity. Attention will also be given to relatively affluent cities or new markets in order to further expand the Group’s network and brand image. The acquisition of the minority interest of existing subsidiaries and controlling interest of managed stores as well as opportunity for third party acquisitions that meet the Group’s strategic initiatives and return on capital requirements will continue to be pursued to enhance shareholders’ returns. This would include the acquisition of competitor stores and the properties currently occupied by the Group’s flagship store or properties which have the potential to be developed into flagship store.

The Group is also wary about the competition and challenges from not only the fellow department store operators but also the emergence of new retail format in line with the maturity of the retail market. To remain competitive, the Group will continue to reinvent and remodel its existing stores and make necessary adjustment to the merchandise mix and brand mix to stay ahead of the fast changing markets. The Group will also focus on improving both the merchandise gross margin and operating profit margin through better merchandise offering, introducing more innovative and more targeted sales and promotion and continuously emphasize on cost rationalization.

The management is confident to successfully execute the Group's refined and accelerating expansion strategy going forward. Leveraging on the Group strong balance sheet, favourable business model, strong brand equity, and huge customer base from the existing Parkson Loyalty Card program, the management believes that the Group is well-positioned to consolidate and maintain its leadership position.

Financial Review

Total gross sales proceeds and operating revenues

The Group recorded total gross sales proceeds received or receivable of RMB14,105.6 million (comprises of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues) during the year under review representing a growth of 14.1% or RMB1,738.1 million. The key contributors to the growth include (i) SSS growth of approximately 11.42%, (ii) inclusion of the full year sales performance of the new stores opened in the year 2009 and (iii) the inclusion of the sales performances for the new stores opened and acquisition completed in the year 2010.

SSS growth recovered to 11.4% for the year 2010, representing an increase of 3.9% compared to SSS growth of 7.5% recorded in the year 2009 attributable to the recovery of the consumption sentiment and the Group's continuous efforts to improve productivity of its stores through merchandise upgrading and realignment of the floor space utilization.

The Group generated total merchandise sales of approximately RMB13,336.3 million. The concessionaire sales contributed approximately 90.0% and the direct sales contributed the balance of 10.0%. The Fashion & Apparel category made up approximately 48.2% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 36.9%, the Household & Electrical category contributed approximately 7.2% and the balance of approximately 7.7% came from the Groceries and Perishables category.

The merchandise gross margin (a combination of the concessionaire commission and the direct sales margin) was flat at 19.0% due to lower merchandise margin for new stores opened in the past 15 months. However on a same store basis, the merchandise gross margin improved by 0.1% as the improved market condition and consumer sentiment enable the Group to continue scaling down its discount activities.

Total operating revenues for the year grew by RMB491.4 million or 12.6% to RMB4,400.1 million. The growth rate of operating revenues was lower than the growth rate of the total gross sales proceeds due to the lower growth rate of direct sales and rental incomes as well as the negative growth of the management and consultancy fees in line with the reduction on the number of managed stores.

Operating Expenses

Purchase of goods and change in inventories

The purchase of goods and change in inventories refer to the cost of sales for the direct sales. In line with the increase of direct sales, the cost of sales rose to RMB1,099.0 million, an increase of 5.5% or RMB57.1 million.

Staff costs

Staff costs increased substantially by RMB83.5 million or 30.3% to RMB359.5 million. The increase was primarily attributable to (i) the inclusion of RMB41.8 million of employee share options expense; (ii) increase of salaries for all level of staffs; (iii) inclusion of full year staff costs for new stores opened in the second half of the year 2009 and (iv) inclusion of staff costs for store opened and acquisition completed in the year 2010. The number of head count at the end of the year stood at 6,705.

As a percentage to total operating revenues, the staff cost ratio increased to 8.2% from 7.1% recorded in the same period of last year. Excluding the employee share options expense, the staff cost ratio increased marginally to 7.2%.

As a percentage to GSP, the staff cost ratio increased to 2.5% from 2.2% recorded in the same period of last year. Excluding the employee share options expense, the staff cost ratio increased by 0.1% to 2.3%.

Depreciation and Amortization

Depreciation and amortisation increased by RMB13.7 million or 8.3% to RMB180.0 million. The increase was primarily attributable to, (i) the inclusion of depreciation and amortisation cost for the new stores opened in the year 2009 and the year 2010; (ii) Depreciation cost in relation to the Beijing Suntran building and (iii) additional depreciation cost in relation to the remodeled stores.

As a percentage to total operating revenues, depreciation and amortisation cost ratio dropped marginally to 4.1% from 4.3% recorded in the same period of last year.

As a percentage to GSP, depreciation and amortisation cost ratio remains flat at 1.3%.

Rental Expenses

Rental expenses rose by RMB75.3 million or 15.1% to RMB575.7 million, the increase was largely due to (i) the inclusion of rental cost for the new stores opened in the year 2009 and the year 2010; (ii) straight line accounting treatment for rental cost in relation to leases for those new stores opened; and (iii) the increased payment of contingent rent for the performance related lease agreements.

As a percentage to total operating revenues, the rental expenses ratio increased to 13.1% from 12.8% recorded in the same period of last year.

As a percentage to GSP, the rental expenses ratio increased by 0.1% to 4.1%.

Other Operating Expenses

Other operating expenses which consist of the (a) utilities cost; (b) marketing, promotional and selling expenses; (c) property management expenses; and (d) general administrative expenses increased by RMB124.0 million or 20.9% to RMB718.1 million due to (i) the inclusion of other operating expenses for the new stores opened in the year 2009 and the year 2010; (ii) the inclusion of pre opening expenses for the new stores opened in the year 2010; (iii) the inclusion of property tax of approximately RMB9.8 million in relation to Beijing Sun Palace building; and (iv) the provision for city development and educational surcharge of approximately RMB10.5 million.

As a percentage to operating revenues, other operating expenses ratio increased marginally by 1.1% to 16.3 % due to the aforesaid reasons.

As a percentage to GSP, other operating expenses ratio increased marginally to 5.1% from 4.8% recorded last year.

Profit from Operating Activities

Profit from operating activities rose to RMB1,467.9 million, an increase of RMB137.7 million or 10.4%. Excluding the employee share options expense, on a comparable basis profit from operating activities increased by RMB179.5 million or 13.5%. New stores opened in the year 2009 and 2010 (stores not included in the same store calculation) collectively suffered approximately RMB90.5 million of operating losses.

As a percentage to total operating revenues, the profit margin from operating activities declined marginally to 33.4% from 34.0% recorded in the same period of last year. Excluding the employee share options expense, the profit margin from operating activities improved marginally to 34.3%.

As a percentage to GSP, the profit margin from operating activities declined marginally to 10.4% from 10.8% recorded in the same period of last year. Excluding the employee share options expense, the profit from operations margin stood at 10.7 %.

Finance Cost, net

The Group incurred total interest expenses of RMB354.3 million for the year, an increase of 11.4% compared to the same period of last year largely due to the premium for early redemption of the HYN2012 and the acceleration of the amortization of issuing cost for HYN2012 in line with the early redemption. Total interest incomes increased to RMB213.9 million for the year due to higher returns from the principal protected structure investments and the higher deposit rate.

Due to the aforesaid reasons, the net finance costs (total interest expenses net of interest incomes) increased by RMB33.3 million or 31.1% to RMB140.3 million.

Share of Profit from an Associate

This is the share of profit from Shanghai Nine Sea Lion Properties Management Co. Ltd, an associate of the Company, the share of profit decreased from RMB577,000 in the year 2009 to RMB311,000 in the year 2010 due to reduction in property management incomes received.

Income Tax

The Group's income tax expense increased by RMB17.8 million or 6.2% to RMB304.3 million due to the increase of profit before income tax and the capital gain tax on the disposal of the 55.0% stakes in Yangzhou Parkson. The effective tax rate was 22.9%, marginally lower by 0.5% compared to the same period of last year.

Net Profit for the year

In line with the increase in revenue, the net profit for the year increased to RMB1,023.7 million. Due to the employee share options expense, redemption premium on HYN2012 and accrual of city development and educational surcharge the net profit margin as a percentage to operating revenues decreased marginally by 0.7% to 23.3%. As a percentage to GSP, the net profit margin declined marginally by 0.3% to 7.3%

Profit Attributable to the Group

Profit attributable to the Group increased to RMB991.8 million, an increase of RMB81.0 million or 8.9% which is marginally lower than the growth rate of profit from operations due to the redemption premium and acceleration of the amortization of issuing cost in view of the early redemption of HYN2012.

Excluding the employee share options expense, profit attributable to the Group increased by 13.5% to RMB1,033.6 million.

Liquidity and Financial Resources

The cash and cash equivalent of the Group (aggregate of cash and short term deposits, pledged deposit and the principal guaranteed investment deposit) stood at RMB5,238.1 million as at the end of December 2010, representing an increase of 35.8% from the balance of RMB3,856.1 million recorded as at the end of December 2009. The increase was mainly due to the cash inflow of RMB1,679.1 million generated from the operating activities and proceeds from the syndicated loan of US$250.0 million and partially offset by (i) payment of dividends of approximately RMB450.7 million to the shareholders of the Company and payment of dividends of approximately RMB27.0 million to the minority shareholders of the Group's subsidiaries; (ii) payment of RMB80.0 million for the acquisition of the Shantou managed store; (iii) early repayment of HYN2012; and (iv) Final settlement for Beijing Sun Palace building, maintenance capital expenditures and new store opening capital expenditures of RMB435.1 million.

Total debt to total assets ratio of the Group expressed as a percentage of the US$250.0 million syndicated loan and its related derivative financial instruments designated as hedging instruments and the interest bearing bank loans over the total assets (after netting off the unlisted held to maturity investment) was 26.3% as at 31 December 2010. The November 2011 senior guaranteed notes and its related derivative financial instruments designated as hedging instruments together with the unlisted held to maturity investments are not included in the calculation as both will be netted off on due date.

Current Assets and Net Assets

The Group's current assets as at 31 December 2010 was approximately RMB7,268.7 million, an increase of 61.8% or RMB2,776.3 million from the balance of RMB4,492.4 million recorded as at 31 December 2009. Net asset of the Group as at 31 December 2010 rose to RMB4,589.2 million, an increase of RMB597.0 million or 15.0% over the balance as at 31 December 2009.

Pledge of Assets

As at 31 December 2010, other than the onshore pledged deposits of RMB1,302 million, no other asset is pledged to any bank or lender.

EMPLOYEES

As at 31 December 2010, total number of employees for the Group was approximately 6,705. 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.

On 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees at nil consideration and with an exercise price of Hong Kong ("HK") $36.75 per share pursuant to an employee share option scheme adopted on the 9 November 2005. The Company's shareholders had on 4 July 2008 approved the subdivision of every existing share of HK$0.10 in the Company into 5 new subdivided shares of HK$0.02 each, which subsequently took effect on 7 July 2008 ("Share Subdivision"). In conjunction therewith, on 7 July 2008, each outstanding share option of the Company had been adjusted to 5 share options and the exercise price had been adjusted to HK$7.35 per share.

The 5,955,600 share options (29,778,000 share options after taking effect of the Share Subdivision) granted under Lot 1 are exercisable from 24 January 2007 to 23 January 2010 and have no other vesting conditions. The 2,233,350 share options (11,166,750 share options after taking effect of the Share Subdivision) granted under Lot 2 are exercisable from 2 January 2008 to 1 January 2011 and required an employee service period until 2 January 2008.

On 1 March 2010 ("the grant date"), a total of 15,821,000 share options were granted to 544 eligible Directors and employees at nil consideration and with an exercise price of HK$12.44 per share ("Lot 3"). Total share options were vested at the Grant Date, the expiration dates for the share options are three years from 1 April 2010.

Further information of the share options granted are set out below:

	Exercise Period	Share options granted	Share options lapsed	Share options exercised	Share options outstanding as at the end of 2010
Lot 1	24 Jan 2007 – 23 Jan 2010	29,778,000	21,500	263,000	-
Lot 2	02 Jan 2008 – 01 Jan 2011	11,166,750	33,250	2,355,250	106,500
Lot 3	01 Apr 2010 – 31 Mar 2013	15,821,000	49,000	540,500	15,231,500
		56,765,750	103,750	3,158,750	15,338,000

The fair value of the options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Directors have complied with the standard set out in the Model Code for the year ended 31 December 2010.

AUDIT COMMITTEE

An Audit Committee ("Committee") has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Committee has reviewed the Group's results of the year 2010. The Committee comprises the three independent non executive directors of the Company.

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the websites of Stock Exchange and the Company. The annual report for the year containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published in the websites of the Stock Exchange and of the Company in due course.

ACKNOWLEDGEMENT

I would like to thank the Board, management and all our staffs for their hard works 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
Cheng Yoong Choong
Managing Director

Hong Kong, 21 February 2011

As at the date of this announcement, the Executive Directors of the Company are Mr. Cheng Yoong Choong and Mr. Chew Fook Seng, the Non-executive Director is Tan Sri Cheng Heng Jem and the Independent Non-executive Directors are Mr. Ko Tak Fai, Desmond, Mr. Studer Werner Josef and Mr. Yau Ming Kim, Robert.