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 2013

HIGHLIGHTS

Total Gross Sales Proceeds ("GSP") increased by 4.3% to RMB17,481.2 million.

Same Store Sales ("SSS") [(1)] declined marginally by 1.8%.

Profit from operations on same store basis [(1)] declined by 15.1%.

Profit Before Tax ("PBT") of the Group declined by 49.2% to RMB611.3 million.

Profit attributable to the Group declined by 58.4% to RMB353.6 million.

Earnings per share was approximately RMB0.126.

Proposed final dividend of approximately RMB27.9 million or RMB0.01 per share.

(1) Year on year change for stores in operation throughout the entire comparative year after: (i) adjusting for the impact from the change of contractual relationship with certain suppliers of jewelry products from concessionaire contract to lease agreement in respect of SSS calculation; (ii) excluding the performance of Shanghai flagship store which was closed temporarily due to major renovation, (iii) excluding the performance of stores closed in the current and previous financial year which include Shanghai Hongqiao store, Guizhou JinFengHuang store and Shijiazhuang store; (iv) excluding the performance of stores affected by subway constructions which include Wuxi flagship store, Nanchang flagship store, the first and second stores in both Hefei and Nanning respectively; and (v) excluding the non-comparable items which include the accelerated depreciation and provision for penalty of early termination of lease contracts of stores with potential closure.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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 2013 with comparative figures for the year 2012 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December 2013 *RMB'000*	2012 *RMB'000* *Restated **
Revenues		4,536,674	4,449,632
Other operating revenues		573,716	585,269
Total operating revenues	4	5,110,390	5,034,901
Operating expenses			
Purchases of goods and changes in inventories		(1,333,718)	(1,288,830)
Staff costs		(589,152)	(479,811)
Depreciation and amortization		(387,877)	(293,102)
Rental expenses		(1,126,835)	(893,234)
Other operating expenses		(1,129,431)	(1,000,597)
Total operating expenses		(4,567,013)	(3,955,574)
Profit from operations	5	543,377	1,079,327
Finance income / (cost), net	6	31,981	76,610
Share of profit of :			
A joint venture		35,783	46,500
An associate		137	144
Profit before income tax		611,278	1,202,581
Income tax	7	(238,676)	(322,877)
Net profit for the year		372,602	879,704
Attributable to:			
Owners of the parent		353,646	850,774
Non-controlling interests		18,956	28,930
		372,602	879,704
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		RMB0.126	RMB0.303
Diluted		RMB0.126	RMB0.302
DIVIDEND PER SHARE	9		
Interim		RMB0.05	RMB0.07
Proposed final		RMB0.01	RMB0.07
		RMB0.06	RMB0.14

* Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments made as detailed in Note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2013	**2012**
	RMB'000	*RMB'000*
		Restated *
Profit for the year	372,602	879,704
Net change on cash flow hedges	(20,238)	(59,820)
Net change on available-for-sale investments	(2,415)	7,413
Exchange differences on translation of foreign operations	40,420	4,263
Other comprehensive income for the year, net of tax	17,767	(48,144)
Total comprehensive income for the year, net of tax	390,369	831,560
Attributable to:		
Owners of the parent	371,413	802,630
Non-controlling interests	18,956	28,930
	390,369	831,560

* Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments made as detailed in Note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2013 RMB'000	2012 RMB'000 Restated *
NON-CURRENT ASSETS			
Property, plant and equipment		3,829,717	2,753,773
Investment properties		36,930	23,767
Prepaid land lease payments		461,061	474,373
Intangible assets		2,245,301	2,174,497
Investment in a joint venture		38,319	35,504
Investment in an associate		2,038	2,042
Prepayment for purchase of land and building		-	620,048
Other assets		384,933	52,845
Available-for-sale financial assets		-	32,098
Deferred tax assets		185,455	137,937
Total non-current assets		7,183,754	6,306,884
CURRENT ASSETS			
Inventories		341,684	306,065
Trade receivables	10	93,541	147,362
Prepayments, deposits and other receivables		1,272,761	877,294
Investment in principal guaranteed deposits		3,635,303	3,307,373
Time deposits		143,167	225,365
Cash and cash equivalents		1,035,518	1,424,477
Total current assets		6,521,974	6,287,936
CURRENT LIABILITIES			
Trade payables	11	(1,957,867)	(1,896,628)
Customers' deposits, other payables and accruals		(2,027,896)	(1,894,913)
Tax payable		(76,053)	(100,461)
Term loan facilities		-	(2,491,161)
Derivative financial instruments designated as hedging instruments		-	(69,498)
Total current liabilities		(4,061,816)	(6,452,661)
NET CURRENT ASSETS /(LIABILITIES)		2,460,158	(164,725)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,643,912	6,142,159

	As at 31 December	
	2013	**2012**
	RMB'000	*RMB'000*
		Restated *
NON-CURRENT LIABILITIES		
Long term payables	(482,144)	(237,397)
Deferred tax liabilities	(283,990)	(243,402)
Bonds	(3,016,833)	-
Interest-bearing bank loans	(178,944)	-
Total non-current liabilities	(3,961,911)	(480,799)
NET ASSETS	5,682,001	5,661,360
EQUITY		
Equity attributable to owners of the parent		
Issued capital	58,299	58,354
Treasury shares	(32,323)	-
Reserves	5,543,310	5,328,927
Proposed final dividends	27,901	196,750
	5,597,187	5,584,031
Non-controlling interests	84,814	77,329
TOTAL EQUITY	5,682,001	5,661,360

* Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments made as detailed in Note 2.

NOTES

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 at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Parkson Holdings Berhad ("PHB"), a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad.

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. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the Group for the year ended 31 December 2013 (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.

The Group has adopted a number of new and revised IFRSs for the first time in the current year's financial statements. Other than as further explained below regarding the impact of IFRS 11, the adoption of these new and revised IFRSs has had no significant financial effect on the Financial Statements.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after 1 January 2013.

The application of this new standard has caused the Group to replace proportionate consolidation of a joint venture with the equity method of accounting. The change in accounting for investment in a joint venture has been applied retrospectively. The comparative information as presented in the 2012 consolidated financial statements has been restated. The application of IFRS 11 has had no financial impact on the Group's results of the operations and financial position. The effect of IFRS 11 will be described in more detail in the annual report, which includes quantification of the effect on the financial statements.

3. GROSS SALES PROCEEDS

	For the year ended 31 December	
	2013	**2012**
	RMB'000	RMB'000
		Restated
Sales of goods – direct sales	1,576,693	1,537,520
Concessionaire sales	15,036,040	14,370,811
Total merchandise sales	16,612,733	15,908,331
Others (including consultancy and management service fees, rental income and other operating revenues)	868,452	848,583
Total gross sales proceeds	17,481,185	16,756,914

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION

	For the year ended 31 December	
	2013	**2012**
	RMB'000	RMB'000
		Restated
Sales of goods – direct sales	1,576,693	1,537,520
Commissions from concessionaire sales	2,665,245	2,648,798
Rental income	281,291	243,518
Consultancy and management service fees	13,445	19,796
Other operating revenues	573,716	585,269
Total operating revenues	5,110,390	5,034,901

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 rental income, the consultancy and management service fees 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.

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION (continued)

Note: Other operating revenues

	Note	For the year ended 31 December 2013 RMB'000	2012 RMB'000 Restated
Promotion income		119,024	102,251
Administration and credit card handling fees		204,008	277,009
Government grants	(i)	12,845	6,687
Gain on disposal of available-for-sale investment		9,391	-
Other incomes		228,448	199,322
		573,716	585,269

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.

5. PROFIT FROM OPERATIONS

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

	For the year ended 31 December	
	2013	**2012**
	RMB'000	RMB'000
		Restated
Cost of inventories recognised as expenses	1,333,718	1,288,830
Staff costs excluding directors' and chief executive's remuneration:		
Wages, salaries and bonuses	388,695	309,569
Pension scheme contributions	57,099	45,511
Social welfare and other costs	118,924	101,463
Equity-settled share option expenses	16,808	16,572
	581,526	473,115
Depreciation and amortization	387,877	293,102
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	920,704	659,614
Contingent lease payments *	206,131	233,620
	1,126,835	893,234
Loss on disposal of items of property, plant and equipment	14,329	3,041
Auditors' remuneration	4,699	4,246
Impairment of property, plant and equipment	-	1,279
Gross rental income in respect of investment properties	(8,872)	(11,972)
Sub-letting of properties:		
Minimum lease payments #	(180,848)	(138,122)
Contingent lease payments *	(91,571)	(93,424)
	(272,419)	(231,546)
Total gross rental income	(281,291)	(243,518)
Direct operating expenses arising on rental-earning investment properties	958	586
Gain on acquisition	(6,523)	-
Gain on disposal of available-for-sale investments	(9,391)	-
Foreign exchange gains	-	(1,501)

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 INCOME/COSTS

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
		Restated
Finance income:		
Bank interest income	160,081	162,398
Income from cross currency and interest swap contracts	38,027	22,506
	198,108	184,904
Finance costs:		
Bonds	(96,636)	-
Term loan facilities	(66,669)	(108,294)
Interest-bearing bank loans	(2,822)	-
	(166,127)	(108,294)

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	
	2013	**2012**
	RMB'000	RMB'000
		Restated
Current income tax	281,785	376,269
Deferred income tax	(43,109)	(53,392)
	238,676	322,877

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2013 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB353,646,000 and the weighted average number of 2,808,227,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB850,774,000 and the weighted average number of 2,810,490,250 shares in issue during that year.

The calculation of diluted earnings per share amounts is based on the profit 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 earnings per share calculation, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares.

No adjustment had been made to the basic earnings per share amounts presented for the year ended 31 December 2013 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

9. PROPOSED FINAL DIVIDEND

	For the year ended 31 December	
	2013	**2012**
	RMB'000	RMB'000
Interim – RMB0.05 (2012: RMB0.07) per ordinary share	140,525	196,734
Proposed final – RMB0.01 (2012: RMB0.07) per ordinary share	27,901	196,750
	168,426	383,484

The Board of Directors recommended the payment of a final dividend for the year of 2013 of RMB0.01 (2012: RMB0.07) in cash per share. The Company declared and paid an interim dividend of RMB0.05 (2012: RMB0.07) 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 dividend, the Company shall be paying full year dividend of RMB0.06 (2012: RMB0.14) in cash per share for the year 2013, representing approximately 47.6% (2012: 46.2%) of the 2013'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 23 May 2014.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividend will be payable on or about 30 June 2014 to the shareholders whose name appears on the Register of Members of the Company at the close of business on 23 May 2014.

10. TRADE RECEIVABLES

Trade receivables mainly arise from purchases by customer with credit card payments. The Group normally allows a credit period of not more than 30 days to its credit card receivables. 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	
	2013	**2012**
	RMB'000	RMB'000
		Restated
Within 3 months	93,375	147,004
3 to 12 months	149	358
Over 1 year	17	-
	93,541	147,362

Included in the balance as at 31 December 2013 are trade receivables from a joint venture of RMB86,000 (2012: RMB34,000) and from fellow subsidiaries of nil (2012: RMB3,012,000) which are attributable to the consultancy fee income receivable from these entities.

11. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	As at 31 December	
	2013	**2012**
	RMB'000	RMB'000
		Restated
Within 3 months	1,828,694	1,769,048
3 to 12 months	96,023	102,502
Over 1 year	33,150	25,078
	1,957,867	1,896,628

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 Friday, 16 May 2014 ("AGM"), the register of members of the Company will be closed from Wednesday, 14 May 2014 to Friday, 16 May 2014, 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 for registration not later than 4:30 p.m. on Tuesday, 13 May 2014.

For determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Thursday, 22 May 2014 to Friday, 23 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend as stated, 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 for registration not later than 4:30 p.m. on Wednesday, 21 May 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Review

2013 has been a challenging year for most retailers in China. Amid the continuous global macroeconomic uncertainties and the Chinese government's effort in transforming its economic development model, China reported a moderate economic growth of 7.7% in 2013, which was the slowest since 1999. The retail sales growth of China has also been decelerating over recent years whereby the total retail sales of consumer goods grew only by 13.1% in 2013, which represented the lowest growth rate reported since 2007.

Being the second largest retail market of the world, the retail sector in China has been evolving very quickly and entering into a transformative phase. The new technologies are revolutionizing the consumption behavior of the Chinese consumers and the way retailers running their businesses. The competition amongst the retailers has been intensifying, whilst the Chinese consumers has been getting increasingly sophisticated, hence demanding for better quality yet value for money products and services. The retailers thus are searching ways to better adapt to the changing landscape.

During the year under review, the Group continued to reassess and adjust its operating strategies and made good progress in various parts of the business to build sustainable growth for the future. In 2013, the Group recorded total GSP of RMB17,481.2 million, an increase of 4.3% from the same period of last year. SSS however declined marginally by 1.8%, which was attributable to the weaker sentiment on discretionary spending and worsened by the austerity drive promoted by the new leadership in China.

Given the intensifying competition and increasing number of new stores and younger stores with lower margin performance, the Group's overall merchandise gross margin declined by 0.7% to 17.5% in 2013. Profit from operations of the Group declined by 49.7% to RMB543.4 million. Apart from the external factors, the weaker financial performance reported by the Group in 2013 was also attributable to: (i) the temporary closure of Shanghai flagship store for major remodeling; (ii) the short-term disruption brought by the on-going subway constructions to the business operation of certain key flagship stores, which include stores located at Wuxi, Nanchang, 2 stores in Nanning and Hefei respectively; and (iii) the inclusion of non-comparable items which include the accelerated depreciation and provision for penalty of early termination of lease contracts of stores with potential closure which amounted to RMB87.1 million. Excluding the non-comparable impacts as highlighted above, operating profit of the Group was in fact declined by 15.1% on same store basis. Operating loss of new stores (4 and 6 stores opened in the year 2012 and 2013 respectively) came in at approximately RMB193.1 million (included an adjustment for straight line rental amounted to RMB89.7 million) in 2013.

Concessionaire sales recorded a growth of 4.6%, marginally outgrew the direct sales and accounted for approximately 90.5% of the total merchandise sales and the direct sales increased by 2.5% and accounted for approximately 9.5% of the total merchandise sales.

The Group has been revamping and remodeling its existing flagship stores as part of the continuous effort to enhance store image and improve productivity. Such strategy has been generally successful with majority of flagship stores showing noticeable improvement in its performance thereafter. During the year under review, the Group completed the major remodeling of the Shanghai flagship store as well as the adjustment and increase of operating area to the Beijing flagship store in order to enhance its competitiveness in the highly competitive and fast changing market. In line with the Group's efforts to rationalize its store portfolio, the Group closed an underperforming store in Shijiazhuang and terminated the management contract of a managed store in Guizhou.

In line with the Group's expansion strategy, the Group continued to open 6 new stores in 2013 with additional gross floor area of approximately 207,000 square meters. As at 31 December 2013, the Group operates and manages 58 stores across 37 major cities in China, with a total gross floor area of approximately 2 million square meters.

During the year under review, the Group has successfully issued a 5-year US$500 million bond which carries a coupon of 4.5% per annum. The proceeds of the bond were primarily used to refinance the short-term borrowings which consisted of the US$400 million syndicated loan and the US$50 million bridge loan.

Prospect

The complicated global economic condition is set to continue in the near future. Although the potential hard landing in the advanced economies have diminished, additional measures will be needed to keep them at bay, including timely increases in the United States debt ceiling and continued "do what it takes" action by the euro area authorities to avoid a sharp deterioration in financial conditions. In contrast, risks of a longer growth slowdown in emerging market economies have now increased, due to protracted effects of domestic capacity constraints, weak external conditions, slowing credit growth, and possibly tighter financial conditions if the unwinding of monetary stimulus in the United States leads to sustained capital flow reversals.

As for China, we believe the government now has a greater tolerance for slower growth, and reforms that concentrate on structural issues should ensure emphasis is placed on quality instead of quantity of growth. We also believe reforms will reduce tail risks and better support medium to long-term growth.

Under its economic transformation program, it is expected that the China central government will push forward comprehensive income distribution reform from many aspects, such as the primary distribution, redistribution, the growth of farmers' incomes and distribution order. As this crucial reform is gradually carried out, China's domestic consumption will gain more forward momentum.

In line with the macroeconomic direction and the expectation that the household incomes will continue to outgrow the economic expansion to improve the structural imbalance of the economy, the Group strongly believe that the emergence of middle class should accelerate in the next decade. Given the Group's middle to middle upper market position, the Group is strategically positioned to capitalize on this anticipated improvement in the economic and demographic structure of China.

Nevertheless, increasing competition is inevitable in this ever changing and maturing retail market. In view of the unprecedented challenges that the department store sector in China is facing, the Group will be making a series of adjustments to its business strategies with an aim to turn these challenges into opportunities. The Group will continue its refined expansionary strategy with lesser but bigger new stores to be opened in the existing markets or nearby cities to better utilize the Group's advantageous positions. To maintain its competitive edge and to diversify its income stream, the Group will invest into shopping mall development and operation to provide a fully integrated shopping and entertainment experience to its customers. Average size of new stores will be increased gradually to enhance its offering of value merchandise and complementary services to better serve its customers.

Leveraging on its widespread network across China, the Group will continue to explore potential collaborations with international renowned brands on exclusive basis with an aim to introduce new and distinctive brands to its customers with latest range of products in the market ahead of its competitors. These collaborations with brands will enable the Group to build a successful brands portfolio to further strengthen its core competencies, and to shield its vulnerability to the structural challenges that the department store operators are facing.

The Group will also further strengthen its customer loyalty card program by seeking differentiation and customization to further widen its customer base, and to realign the floor space allocation in order to improve productivity and increase rental income. Continuous cost rationalization exercise, through the launching of mobile POS system will be carried out to all stores throughout the country to reduce staff cots pressure and at the same time to improve operating efficiency. The Group will also exploit the digital marketing platform to achieve better marketing results. Immediate and necessary actions will be taken against the underperforming stores to avoid further losses. Given the continuing weak consumption sentiment, the Group will continue to monitor closely changes to the merchandise gross margin and make necessary adjustments to its marketing and promotional strategies to protect its margin performance.

Financial Review

GSP and operating revenues

The Group recorded a total GSP of RMB17,481.2 million (consists of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues) during the year under review which representing a growth of 4.3% or RMB724.3 million Year On Year (“YOY”). The key contributors to the growth include (i) inclusion of the sales performance of the 10 new stores opened in the year 2012 and 2013; and (ii) inclusion of the sales performances of 4 acquired stores that were previously managed by the Group on behalf of the parent company. The growth was however partly offset by (i) the marginal decline in SSS by 1.8%; (ii) the closure of Shanghai Hongqiao store and Guizhou JinFengHuang store in 2012 and Shijiazhuang store in 2013; and (iii) the temporary closure of Shanghai flagship store due to major remodeling.

The Group generated total merchandise sales of approximately RMB16,612.7 million. The Fashion & Apparel category made up approximately 46.6% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 43.4%, the Household & Electrical category contributed approximately 4.2% and the balance of approximately 5.8% came from the Groceries and Perishables category.

Due to intensifying competition and increasing number of younger and new stores with lower margin performance, the Group’s merchandise gross margin (a combination of concessionaire commission rate and the direct sales margin) declined by 0.7% to 17.5%. Specifically, the decline in merchandise gross margin was primarily attributable to: (i) higher sales contribution from the younger stores and new stores with lower merchandise gross margin; (ii) lower sales contribution from stores with higher merchandise gross margin in particular the Beijing and Shanghai flagship stores; and (iii) higher sales contribution from merchandise with lower merchandise gross margin such as gold and jewelry.

Total operating revenues for the year grew by RMB75.5 million or 1.5% to RMB5,110.4 million. The growth rate of operating revenues was lower than the growth rate of the GSP due to (i) lower growth rate of management and consultancy fees; (ii) marginal decline of other operating revenues; and (iii) lower concessionaire rate.

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 RMB1,333.7 million, an increase of 3.5% or RMB44.9 million YOY.

Staff costs

Staff costs increased by 22.8% YOY to RMB589.2 million. The substantial increase was primarily attributable to (i) inclusion of the staff cost of new stores opened in 2012 and 2013; (ii) inclusion of the staff cost of 4 managed stores acquired from the parent company; and (iii) general wage rise. On a same store basis, staff cost increased by 6.1% due to general wage rise.

As a percentage to GSP, the staff cost ratio increased from 2.9% to 3.4%.

Depreciation and Amortization

Depreciation and amortization increased by 32.3% YOY to RMB387.9 million. The increase was primarily attributable to, (i) the inclusion of depreciation and amortization cost of the new stores opened in 2012 and 2013; (ii) the inclusion of depreciation and amortization cost of 4 managed stores acquired from the parent company; (iii) additional depreciation cost in relation to the remodeled stores; and (iv) accelerated depreciation of stores with potential closure amounted to RMB57.1 million. On a same store basis, the depreciation and amortization cost increased marginally by 9.0% due to the remodeled stores.

As a percentage to GSP, depreciation and amortization cost ratio increased from 1.7% to 2.2%.

Rental Expenses

Rental expenses rose to RMB1,126.8 million, a substantial increase of 26.2% or RMB233.6 million YOY, the increase was largely due to (i) the inclusion of rental cost of the new stores opened in 2012 and 2013; (ii) the inclusion of rental cost of 4 managed stores acquired from the parent company; and (iii) the adjustment of straight-line rental of new stores and acquired stores amounted to RMB116.2 million. The increase was partly offset by the rental discounts received from the landlords in respect of the rental prepayment. On a same store basis, the rental expenses growth was flat.

As a percentage to GSP, the rental expenses ratio increased from 5.3% to 6.4%.

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 rose to RMB1,129.4 million, an increase of 12.9% or RMB128.8 million due to (i) the inclusion of other operating expenses of the new stores opened in 2012 and 2013; (ii) the inclusion of pre-opening expenses and other operating expenses of 4 managed stores acquired from the parent company; and (iii) provision for penalty of early termination of lease contracts of stores with potential closure amounted to RMB30 million. On a same store basis, other operating expenses decreased by 2.1% which in line with the Group's strategy to control its operating cost.

Due to the aforesaid reasons, as a percentage to GSP, other operating expenses ratio increased from 6.0% to 6.5%.

Profit from Operations

In light of the decline in SSS and contraction of merchandise gross margins, temporary closure of Shanghai flagship store, higher start up losses of the increasing new stores and non-comparable items, profit from operations declined by 49.7% to RMB543.4 million. As a percentage to GSP, the profit from operations margin declined from 6.4% last year to 3.1% in 2013. Excluding the impact of store closures and disruptions from subway constructions, on a comparable basis, the profit from operations declined by 15.1%.

Finance Incomes, net

Net finance incomes declined by 58.3% to RMB32.0 million due to combination of (i) increase in finance cost due to the refinancing of short-term borrowings with a 5-year US dollar bonds which carry a relatively higher interest rate; and (ii) interest expense arising from new offshore short-term borrowings.

Share of Profit from a Joint Venture

This is the share of profit from Xinjiang Youhao Parkson Development Co. Ltd, a joint venture of the Company. The share of profit decreased by 23.0% to RMB35.8 million due to decline in merchandise gross margin and increase in operating cost.

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 marginally to RMB137,000.

PBT

In light of the declined of profit from operations, PBT dropped 49.2% YOY to RMB611.3 million. As a percentage to GSP, PBT ratio decreased from 7.2% to 3.5%.

Income Tax Expenses

In line with the decline of PBT, the Group's income tax expenses decreased by RMB84.2 million YOY to RMB238.7 million. However, the effective tax rate for the year increased from 26.8% to 39.0% due to the increase of operating loss of new stores and offshore interest expense which is not tax deductible.

Net Profit for the year

Due to the aforesaid reasons net profit for the year declined by 57.6% to RMB372.6 million. As a percentage to GSP, the net profit margin declined from 5.2% to 2.1%.

Profit Attributable to the Group

Profit attributable to the Group dropped to RMB353.6 million, a decline of RMB497.1 million or 58.4%.

Liquidity and Financial Resources

On 3 May 2013, the Company has successfully issued a 5-year US$500 million bond which carries a coupon of 4.5% per annum. The proceeds of the bond were primarily used to refinance the short-term borrowings which consisted of the US$400 million syndicated loan and the US$50 million bridge loan.

As at 31 December 2013, the cash and cash equivalents of the Group (aggregate of principal guaranteed investment deposit, time deposits and cash and bank balances deposited with licensed banks) stood at RMB4,814.0 million, representing a marginal decline of 2.9%. The decrease was primarily due to (i) dividends payment of approximately RMB337.3 million to the shareholders of the Company; (ii) deposits payment of RMB573.1 million for the acquisition of a shopping mall in Qingdao; (iii) balance payment of RMB264.7 million for the acquisition of 4 managed stores from the parent company; and (iv) maintenance capital expenditures and new store opening capital expenditures of RMB442.3 million.

Total debt to total assets ratio of the Group was 23.3% as at 31 December 2013.

Current Assets and Net Assets

The Group's current assets as at 31 December 2013 was approximately RMB6,522.0 million, an increase of 3.7% or RMB234.1 million YOY. Net assets of the Group as at 31 December 2013 rose to RMB5,682.0 million, an increase of RMB20.6 million or 0.4% YOY.

Pledge of Assets

As at 31 December 2013, the Group has an onshore pledged deposit of RMB146.6 million. Save for the above, no other asset is pledged to any bank or lender.

EMPLOYEES

As at 31 December 2013, total number of employees for the Group was 9,454. 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 1 March 2010, a total of 15,821,000 share options (the "2010 Share Options") representing Lot 3 were granted to 544 eligible Directors and employees at nil consideration and with an exercise price of HK$12.44 per share. Total share options were vested on the grant date, the expiration dates for the share options are three years from 1 April 2010. All outstanding shares options not exercised pursuant to the 2010 Share Options had expired during the year under review.

On 27 November 2012, a total of 34,171,500 share options (the "2012 Share Options") representing Lot 4 and Lot 5 were granted to 642 eligible Directors and employees at nil consideration and with an exercise price of HK$6.24 per share. 17,085,750 of the share options under Lot 4 were vested on the grant date and will be exercisable from 1 January 2013 to 31 December 2015. The balance of 17,085,750 share options under Lot 5 will be exercisable from 1 January 2014 to 31 December 2016 and require an employee service period until 1 October 2013.

Movement of the outstanding share options granted under the Scheme for the year ended 31 December 2013 is as follows:

	As at 1 January 2013	Share options granted	Share options exercised	Share options lapsed	Share options expired	As at 31 December 2013
Lot 3	14,152,500	-	-	-	(14,152,500)	-
Lot 4	17,085,750	-	(10,000)	(877,500)	-	16,198,250
Lot 5	17,085,750	-	-	(877,500)	-	16,208,250
	48,324,000	-	(10,000)	(1,755,000)	(14,152,500)	32,406,500

The fair value of the options granted is estimated at the date of grant using a binomial 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

During the year ended 31 December 2013, the Company repurchased 20,450,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of RMB40,455,000. Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares for the year ended 31 December 2013.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code, 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 2013.

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 2013.

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 2013. The Committee comprises the three independent non-executive directors of the Company.

PUBLICATION OF FINAL RESULTS

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 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
Cheng Heng Jem
Executive Director & Chairman

20 February 2014

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