PARKSON 百盛

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 2014

HIGHLIGHTS

Total Gross Sales Proceeds ("GSP") decreased by 4.2% to RMB19,449.4 million.

Same Store Sales ("SSS") [1] declined by 7.1%.

Merchandise gross margin of 17.5% remained level compared with 2013.

Profit from operations on same store basis [1] declined by 16.9%.

Profit attributable to the Group declined by 33.5% to RMB235.0 million after a RMB105.1 million one-off provision for store closure. Excluding this, the profit attributable to the Group would have amounted to RMB340.1 million, representing a marginal decline of 3.8% as compared to last year.

Earnings per share was approximately RMB0.085.

Proposed final dividend of approximately RMB27.3 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 jewellery products from concessionaire contract to lease agreement in respect of SSS calculation; (ii) excluding the performance of Shanghai flagship store which was closed temporarily in 2013 due to major renovation, (iii) excluding the performance of stores closed in the current and previous financial year.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

The Board of Directors of Parkson Retail Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company, its subsidiaries, a joint venture and an associate for the year ended 31 December 2014 with comparative figures for the year 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**For the year ended 31 December** **2014** *RMB'000*	**2013** *RMB'000*
Revenues		4,523,729	4,536,674
Other operating revenues		491,349	573,716
Total operating revenues	4	5,015,078	5,110,390
Operating expenses			
Purchases of goods and changes in inventories		(1,413,251)	(1,333,718)
Staff costs		(617,912)	(589,152)
Depreciation and amortisation		(404,021)	(387,877)
Rental expenses		(1,071,810)	(1,126,835)
Other operating expenses		(1,183,128)	(1,129,431)
Total operating expenses		(4,690,122)	(4,567,013)
Profit from operations	5	324,956	543,377
Finance income / (costs), net	6	21,137	31,981
Share of profit of :			
A joint venture		30,795	35,783
An associate		117	137
Profit from operations before income tax		377,005	611,278
Income tax expenses	7	(131,232)	(238,676)
Profit for the year		245,773	372,602
Attributable to:			
Owners of the parent		235,032	353,646
Non-controlling interests		10,741	18,956
		245,773	372,602
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		RMB0.085	RMB0.126
Diluted		RMB0.085	RMB0.126
DIVIDEND PER SHARE	9		
Interim		RMB0.04	RMB0.05
Proposed final		RMB0.01	RMB0.01
		RMB0.05	RMB0.06

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Profit for the year	245,773	372,602
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments on cash flow hedges arising during the year	-	69,498
Gain on disposal included in the consolidated statement of profit or loss	-	(89,736)
	-	(20,238)
Available-for-sale investments:		
Changes in fair value	-	6,976
Gain on disposal included in the consolidated statement of profit or loss		(9,391)
	-	(2,415)
Exchange differences on translation of foreign operations	(9,582)	40,420
Other comprehensive income for the year, net of tax	(9,582)	17,767
Total comprehensive income for the year	236,191	390,369
Attributable to:		
Owners of the parent	225,450	371,413
Non-controlling interests	10,741	18,956
	236,191	390,369

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December **2014** *RMB'000*	**2013** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		3,750,757	3,829,717
Investment properties		25,502	36,930
Prepaid land lease payments		447,749	461,061
Intangible assets		2,162,617	2,245,301
Investment in a joint venture		26,151	38,319
Investment in an associate		2,023	2,038
Prepayment for purchase of land and buildings		867,840	-
Other assets		358,346	384,933
Deferred tax assets		213,707	185,455
Total non-current assets		7,854,692	7,183,754
CURRENT ASSETS			
Inventories		340,564	341,684
Trade receivables	10	85,570	93,541
Prepayments, deposits and other receivables		773,430	1,272,761
Investment in principal guaranteed deposits		3,532,690	3,635,303
Time deposits		227,626	143,167
Cash and cash equivalents		1,124,312	1,035,518
Total current assets		6,084,192	6,521,974
CURRENT LIABILITIES			
Trade payables	11	(1,813,994)	(1,957,867)
Customers' deposits, other payables and accruals		(1,740,485)	(2,027,896)
Tax payable		(65,196)	(76,053)
Interest-bearing bank loans		(700,077)	(178,944)
Total current liabilities		(4,319,752)	(4,240,760)
NET CURRENT ASSETS		1,764,440	2,281,214
TOTAL ASSETS LESS CURRENT LIABILITIES		9,619,132	9,464,968

	As at 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Bonds	(3,034,500)	(3,016,833)
Long term payables	(655,726)	(482,144)
Deferred tax liabilities	(269,988)	(283,990)
Total non-current liabilities	(3,960,214)	(3,782,967)
NET ASSETS	5,658,918	5,682,001
EQUITY		
Equity attributable to owners of the parent		
Issued capital	57,862	58,299
Treasury shares	(76,148)	(32,323)
Reserves	5,577,897	5,543,310
Proposed final dividends	27,341	27,901
	5,586,952	5,597,187
Non-controlling interests	71,966	84,814
TOTAL EQUITY	5,658,918	5,682,001

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 2014 (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. New adoption of these new and revised IFRSs has had no significant financial effect on the Financial Statements.

3. GROSS SALES PROCEEDS

	For the year ended 31 December	
	2014	**2013**
	RMB’000	RMB’000
Sales of goods – direct sales	1,645,004	1,576,693
Concessionaire sales	14,281,837	15,036,040
Total merchandise sales	15,926,841	16,612,733
Others (including consultancy and management service fees, rental income and other operating revenues)	815,039	868,452
Total gross sales proceeds	16,741,880	17,481,185
Total gross sales proceeds (inclusive of value-added tax)	19,449,443	20,305,350

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION

	For the year ended 31 December	
	2014	**2013**
	RMB'000	RMB'000
Sales of goods – direct sales	1,645,004	1,576,693
Commissions from concessionaire sales	2,555,035	2,665,245
Rental income	309,015	281,291
Consultancy and management service fees	14,675	13,445
Other operating revenues	491,349	573,716
Total operating revenues	5,015,078	5,110,390

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 sales of goods - direct sales, commissions from concessionaire sales, rental income, consultancy and management service fees and 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	
		2014	**2013**
	Note	RMB'000	RMB'000
Promotion income		109,870	119,024
Administration and credit card handling fees		146,104	204,008
Government grants	(i)	10,527	12,845
Gain on disposal of available-for-sale investments		-	9,391
Other incomes		224,848	228,448
		491,349	573,716

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	
	2014	**2013**
	RMB'000	RMB'000
Cost of inventories recognised as expenses	1,413,251	1,333,718
Staff costs excluding directors' and chief executive's remuneration:		
Wages, salaries and bonuses	432,563	388,695
Pension scheme contributions	61,627	57,099
Social welfare and other costs	119,388	118,924
Equity-settled share option expenses	-	16,808
	613,578	581,526
Depreciation and amortisation	404,021	387,877
Impairment of goodwill	81,168	-
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	896,724	920,704
Contingent lease payments *	175,086	206,131
	1,071,810	1,126,835
Loss on disposal of items of property, plant and equipment	5,565	14,329
Auditors' remuneration	5,059	4,699
Gross rental income in respect of investment properties	(5,964)	(8,872)
Sub-letting of properties:		
Minimum lease payments #	(181,891)	(180,848)
Contingent lease payments *	(121,160)	(91,571)
	(303,051)	(272,419)
Total gross rental income	(309,015)	(281,291)
Direct operating expenses arising on rental-earning investment properties	735	958
Gain on acquisition	-	(6,523)
Gain on disposal of available-for-sale investments	-	(9,391)

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	
	2014	**2013**
	RMB'000	RMB'000
Finance income:		
Bank interest income	170,371	160,081
Income from cross currency and interest swap contracts	-	38,027
	170,371	198,108
Finance costs:		
Bonds	(144,409)	(96,636)
Term loan facilities	-	(66,669)
Interest-bearing bank loans	(4,825)	(2,822)
	(149,234)	(166,127)
Finance income/(costs),net	21,137	31,981

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	
	2014	**2013**
	RMB'000	RMB'000
Current income tax	173,486	281,785
Deferred income tax	(42,254)	(43,109)
	131,232	238,676

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB235,032,000 and the weighted average number of 2,776,805,000 shares in issue during the year.

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 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 years ended 31 December 2014 and 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	
	2014	**2013**
	RMB'000	RMB'000
Interim – RMB0.04 (2013: RMB0.05) per ordinary share	111,181	140,525
Proposed final – RMB0.01 (2013: RMB0.01)	27,341	27,901
	138,522	168,426

The Board of Directors recommended the payment of a final dividend for the year of 2014 of RMB0.01 (2013: RMB0.01) in cash per share. The Company declared and paid an interim dividend of RMB0.04 (2013: RMB0.05) 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 RMB0.05 (2013: RMB0.06) in cash per share for the year 2014, representing approximately 58.9% (2013: 47.6%) of the 2014'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 1 June 2015.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividend will be payable on or about 30 June 2015 to the shareholders whose name appears on the Register of Members of the Company at the close of business on 1 June 2015.

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. The Group's trade receivables relate to a number of diversified counterparties and there is no significant concentration of credit risk. The trade receivables are interest-free.

An aged analysis of the trade receivables is as follows:

	As at 31 December	
	2014	**2013**
	RMB'000	RMB'000
Within 3 months	85,298	93,375
4 to 12 months	269	149
Over 1 year	3	17
	85,570	93,541

Included in the balance as at 31 December 2014 are trade receivables from a joint venture of RMB1,408,000 (2013: RMB86,000) which is attributable to 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	
	2014	**2013**
	RMB'000	RMB'000
Within 3 months	1,670,614	1,828,694
4 to 12 months	99,808	96,023
Over 1 year	43,572	33,150
	1,813,994	1,957,867

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, 22 May 2015 ("AGM"), the register of members of the Company will be closed from Wednesday, 20 May 2015 to Friday, 22 May 2015, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 19 May 2015.

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 Friday, 29 May 2015 to Monday, 1 June 2015, 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, at the above address, for registration not later than 4:30 p.m. on Thursday, 28 May 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BRAVING THE CHALLENGE

2014 was extremely challenging for retailers in the PRC. With the continued market slowdown, demonstrated by the weakest Gross Domestic Product growth rate ("GDP") of 7.4% for the past 24 years, overall retail sales only increased by 10.9% in 2014, down from 13.1% in 2013. This lower growth rate already include the strong growth of online retail sales of 49.7% in 2014.

The market slowdown, coupled with the PRC government's austerity measures, keen competition from online retailers and the lack of speculative demand on gold and jewellery products affected our business. During 2014, our GSP recorded a decline of 4.2% to RMB19,449.4 million and our SSS also declined by 7.1%.

Despite these challenges, our solid understanding of the retail market, our flexible business model, and our innovative merchandising approach have equipped us to maintain our competitiveness and our merchandise gross margin of 17.5% remained level compared with 2013.

On 1 November 2014, we launched a WeShopping Festival through Tencent's Wechat platform. The online to offline ("O2O") promotion was a great success and we recorded sales growth of 130.4% compared with 2013. Embracing the Single's Day Festival on 11 November and the Double's Day Festival on 12 December in a similar manner, we saw sales growth of approximately 57.0% on each of these festivals.

Management continued to evaluate the effectiveness of our store operational strategy and in 2014 made bold decisions on closing four under-performing stores. As such, we incurred one-off provisions for store closure expenses of RMB105.1 million, which affected our net profit. After these one-off costs, net profit attributable to the Group dropped by 33.5% to RMB235.0 million for 2014. Excluding this, profit attributable to the Group would have amounted to RMB340.1 million, which represented a marginal decline of 3.8% as compared to last year. Our earnings per share was RMB0.085 and the Board of Directors proposed a final dividend of RMB0.01 in cash per share.

To maintain our competitiveness, we have adopted a cautious approach to store opening and target second tier cities with high growth potential. During 2014, we opened five new stores in Zhongshan, Zhengzhou, Chongqing, Nanchang and Mianyang. Four out of these five new stores are located in cities with a strong presence from the Group. This provides solid foundations to the new stores in ramping up their performance in their initial years.

Customers in the PRC, especially the emerging middle class in growing cities, are increasingly looking for lifestyle experiences encompassing shopping, dining and entertainment. We have therefore modified our asset light business model and acquired a shopping mall in Qingdao in December 2014. The shopping mall, with a Parkson department store as its anchor tenant, is expected to be launched in the fourth quarter of 2015.

We understand that customers in first tier cities are looking for exclusive brands and customer experiences. Therefore, we upgraded our Shanghai and Beijing flagship department stores to lifestyle concept stores by renovating the retail space, enlarging the food and dining sections and offering our loyal customers dedicated VIP lounges and exclusive services. We also adjusted the merchandise and tenant mix to meet the demand of young and affluent customer in these markets. In addition, we have introduced international brands to our stores and brand distribution business, including female fashion brand Mango, male fashion brand H.E. by Mango and the fashion jewellery brand TOUS. This new initiative enabled the Group to develop a new revenue stream which is backed by stronger profit margins.

LOOKING AHEAD

Despite the fact that the PRC government missed its economic growth target for the first time, senior government officials have expressed their views on the importance of pursuing qualitative rather than quantitative growth in future. Parkson customers are also looking for quality products and customer experiences.

We believe the economic slowdown and the rise of the e-commerce sector will persist for some time. However, the purchasing power of the young and affluent middle to upper class is growing every day, so the challenges must be seen in context. There is a Chinese proverb that states, “Where there is crisis, there is opportunity”. The directors and management strongly believe that we can meet our present challenges and we welcome the opportunities that lie ahead. We plan to adopt the following strategy to transform our business and embrace these opportunities.

TRANSFORMING OUR BUSINESS

Looking ahead, we will transform our business from a traditional department store to a lifestyle concept retail business. Backed by our nationwide network, professional management team, strong vendor relationships and big data analytics, we have gathered market insights which have helped us shape the following strategy:

Laying the Foundations

We will continue to strengthen the lifestyle elements of Parkson. To complement our lifestyle retail strategy, we will introduce more varied food and beverage outlets to our stores to enhance our customer experience. Our recent announcement to jointly develop food and beverage businesses with hospitality group, AUM Hospitality Sdn. Bhd. of Malaysia, will bring new brands such as Johnny Rockets (USA) and The Library Coffee Bar to our PRC customers. By introducing dining concepts to our stores, we encourage customers to come to our stores with friends and family, stay longer and shop more.

We are proactively expanding our brand distribution business by introducing renowned yet understated brands to the PRC. We have recently secured a number of European shoe brands to develop multi-brand shoes outlets in our Parkson stores. We are also bringing in a Malaysian leather goods brand Bonia and plans to open stores in 2015. Our experienced buyers will handpick the brands and products which cater to our target customers.

In 2015, we are introducing our new customer loyalty programme to offer our VIPs new shopping and lifestyle privileges, including the use of VIP lounges in our stores, exclusive event invitations and attractive bonus points redemption scheme. VIPs can also enjoy shopping privileges in Parkson's overseas stores. The new loyalty programme aims at attracting existing and new VIPs for repeat patronage.

In line with our lifestyle concept retail business, we will open lifestyle shopping malls in cities with high growth potential, and transform some of our existing stores into lifestyle shopping malls. At the same time, we will continue to work closely with real estate industry leaders to open our new stores in their successful shopping malls.

Gaining Momentum

We will focus on our omni-channel strategy, while strengthening our lifestyle elements and enhancing our merchandising strategy. We will also adjust our store classification to meet different markets' demand and continue to develop our brand distribution business.

We believe that the future of retail lies in both traditional and online shopping. The integration of both online and offline businesses will cater to affluent customers who look for a well-rounded service. Leveraging the success of our O2O promotions last year, we will continue to introduce creative omni-channel marketing campaigns to enhance our brand positioning and drive sales. One of our strategies is to work with various brands to upgrade our stock keeping unit ("SKU") management system and link this up to our online shopping platform. The SKU management system will ensure our efficient and effective inventory management which facilitates our omni-channel strategy implementation. We will also introduce more Points of Sale ("POS") and online payment options, e.g. Alipay and WeChat mobile wallet to offer more payment flexibility to our customers.

We are also revamping our merchandising strategy to increase the percentage of our direct sales through the introduction of international brands and private labels such as Weekenders, Serena and Zie Zac. Enhancing our direct sales mix, in the long run, will improve the competitiveness of our stores and at the same time strengthen the Group's profit margin.

In view of the different development stages of PRC cities, we will classify our markets into three categories, namely prime stores, up & coming stores and fashion outlets. We will also modify our product mix to meet localised market demands. One of our new strategies is to turn stores in some cities into fashion outlets to capture a distinct group of middle class customers who look for value for money products.

Vision

Our vision is to transform our business from a traditional department store to a lifestyle concept retail business. This covers not just one form of retail concept, but a combination of online and offline businesses, shopping malls, department stores with lifestyle elements, specialty stores as well as fashion outlets, to cater for a variety of market demands. Based on ever-changing customer expectations, the management will fine-tune its strategy to ensure we offer our customers the best possible experience and we will strive for optimal returns for our shareholders.

Financial Review

GSP and operating revenues

The Group recorded a total GSP (consists of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues) of RMB19,449.4 million (inclusive of value-added tax) in the financial year of 2014 ("FY2014"), representing a Year On Year ("YOY") decline of 4.2%. The key contributors to the GSP decline include (i) decline in SSS by 7.1% due to generally weaker sentiment on discretionary spending; (ii) rising competition from various retail platforms; (iii) a continuous austerity drive by the government; and (iv) absence of speculative demand on gold and jewellery products which was experienced in the second quarter of 2013. Excluding the impact from gold and jewellery products, SSS decline in FY2014 was 5.2%.

The Group generated total merchandise sales of approximately RMB15,926.8 million (net of value-added tax). The Fashion & Apparel category made up approximately 46.8% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 43.9%, the Household & Electrical category contributed approximately 3.9% and the balance of approximately 5.4% came from the Groceries and Perishables category.

Despite intensifying competition, the Group's merchandise gross margin (a combination of concessionaire commission rate and the direct sales margin) remained at 17.5% in FY2014, which was the same rate as recorded last year. This is mainly due to change in merchandise mix as a result of lower sales contribution from low-margin merchandise such as gold and jewellery products, but the resulted margin improvement was offset by the discount and promotional campaigns carried out by the Group such as the WeShopping Festival, Single's Day, Double's Day, etc.

Total operating revenues of the Group declined marginally by 1.9% to RMB5,015.1 million. The marginal decline in operating revenue was mainly due to the decline in GSP. The decline rate for operating revenues was noticeably lower than the decline rate of the GSP due to: (i) increase of direct sales revenue by 4.3% which mainly attributed to the resilient performance of the cosmetics department; and (ii) increase in rental income by 9.9% as a result of the Group's transformation programme in allocating more operating area for complementary services.

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 RMB1,413.3 million, an increase of 6.0% or RMB79.5 million YOY.

Staff costs

Staff costs increased by 4.9% YOY to RMB617.9 million. The increase was primarily attributable to contribution from new stores and general wage rise. On a same store basis, staff cost increased marginally by 4.1%.

As a percentage to GSP, the staff cost ratio increased from 3.4% to 3.7%.

Depreciation and Amortization

Depreciation and amortization increased by 4.2% YOY to RMB404.0 million. The increase was primarily attributable to contribution from new stores as well as additional depreciation cost in relation to the remodeled stores. On a same store basis, the depreciation and amortization cost decreased marginally by 2.4%.

As a percentage to GSP, depreciation and amortization cost ratio increased from 2.2% to 2.4%.

Rental Expenses

Rental expenses reduced by 4.9% to RMB1,071.8 million, mainly due to (i) rental discounts received from the landlords in respect of the rental advances made by the Group; and (ii) reversal of straight-line rental due to store closures. On a same store basis, rental expenses declined by 4.2%.

As a percentage to GSP, the rental expenses ratio remained at 6.4% as compared to last year.

Other Operating Expenses

Other operating expenses consist of (a) utilities cost; (b) marketing, promotional and selling expenses; (c) property management expenses; and (d) general administrative expenses rose to RMB1,183.1 million, an increase of 4.8% or RMB53.7 million due to (i) the contribution from new stores; and (ii) provision for store closure expenses. On a same store basis, other operating expenses decreased by 6.7% due to the Group's cost rationalization exercise.

Due to the aforesaid reasons, as a percentage to GSP, other operating expenses ratio increased from 6.5% to 7.1%.

Profit from Operations

In light of the decline in SSS and operating revenue, profit from operations declined by 40.2% to RMB324.9 million. As a percentage to GSP, the profit from operations margin declined from 3.1% last year to 1.9% in FY2014. On a same store basis, profit from operations declined by 16.9%.

Finance Incomes, net

Net finance incomes declined by 33.9% to RMB21.1 million due to combination of (i) higher finance cost due to the refinancing which was completed in May 2013; (ii) interest expense arising from new offshore short-term borrowings; and (iii) lower interest income due to decline in onshore deposits rates and average cash balances.

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 13.9% to RMB30.8 million due to a decline in GSP.

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 by14.6% to RMB117,000.

Profit from operations before income tax (“PBT”)

In light of the decline of profit from operations, PBT dropped 38.3% YOY to RMB377.0 million. As a percentage to GSP, PBT ratio decreased from 3.5% to 2.3%.

Income Tax Expenses

In line with the decline of PBT, the Group’s income tax expenses decreased by 45.0% or RMB107.4 million YOY to RMB131.2 million. The effective tax rate for the year was reduced from 39.0% to 34.8% mainly due to certain subsidiaries having obtained preferential tax rate exemption during the year under review.

Net Profit for the year

Due to the aforesaid reasons, net profit for the year declined by 34.0% to RMB245.8 million. As a percentage to GSP, the net profit margin declined from 2.1% to 1.5%.

Profit Attributable to the Group

Profit attributable to the Group dropped 33.5% to RMB235.0 million. The substantial decline is mainly due to the one-off store closure provision amounted to RMB105.1 million. Excluding which, profit attributable to the Group would have been amounted to RMB340.1 million, which represented a marginal decline of 3.8% as compared to last year.

Liquidity and Financial Resources

As at 31 December 2014, 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 RMB4,884.6 million, representing an increase of 1.5% from balance as at 31 December 2013 of RMB4,814.0 million. The increase was primarily due to (i) net cash inflow from operating activities amounted to RMB343.5 million; (ii) net cash outflow from investing activities amounted to RMB392.8 million; and (iii) net cash inflow from financing activities amounted to RMB119.9 million.

Total debt to total assets ratio of the Group was 26.8% as at 31 December 2014.

Current Assets and Net Assets

The Group's current assets as at 31 December 2014 was approximately RMB6,084.2 million, a decrease of 6.7% or RMB437.8 million YOY. Net assets of the Group as at 31 December 2014 decreased marginally by 0.4% to RMB5,658.9 million.

Pledge of Assets

As at 31 December 2014, the Group has onshore pledged deposits of RMB725.8 million to secure short-term bank loans. Other than the aforesaid, no other asset is pledged to any bank or lender.

EMPLOYEES

As at 31 December 2014, total number of employees for the Group was 9,439. 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 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 are exercisable from 1 January 2013 to 31 December 2015. The balance of 17,085,750 share options under Lot 5 are 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 2014 is as follows:

	As at 1 January 2014	Share options granted	Share options exercised	Share options lapsed	Share options expired	As at 31 December 2014
Lot 4	16,198,250	-	-	(1,819,500)	-	14,378,750
Lot 5	16,208,250	-	-	(1,819,500)	-	14,388,750
	32,406,500	-	-	(3,639,000)	-	28,767,500

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 2014, the Company repurchased 55,989,500 shares of its own ordinary shares through the Stock Exchange at a total consideration of RMB96,603,000 (approximately HK$122,319,000). 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 2014.

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 2014.

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 2014.

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 2014. The Committee comprises the two non-executive directors and 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

12 February 2015

As at the date of this announcement, the Executive Directors of the Company are Tan Sri Cheng Heng Jem and Mr. Chong Sui Hiong, the Non-executive Directors are Datuk Lee Kok Leong and Dato' Dr. Hou Kok Chung and the Independent Non-executive Directors are Mr. Ko Tak Fai, Desmond, Mr. Yau Ming Kim, Robert and Dato' Fu Ah Kiow.