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 & 5936)

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

Total Gross Sales Proceeds ("GSP") decreased by 8.3% to RMB16,598.5 million.

Same Store Sales ("SSS") for the Fourth Quarter ("Q4") increased by 1.4%, rebounded from the decline of 9.0% in the first 9 months of 2016.

Merchandise gross margin decreased by 0.3% to 16.5% in 2016.

The Group recorded a gain (before tax) of RMB1,282.9 million from the disposal of a subsidiary.

The Group recorded profit attributable to owners of the parent of RMB147.3 million.

Proposed interim dividend of approximately RMB53.0 million or RMB0.02 per share.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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 associates for the year ended 31 December 2016 with comparative figures for the year 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the year ended 31 December 2016 RMB'000	2015 RMB'000
Revenues		4,133,561	4,232,621
Other operating revenues		472,331	506,058
Total operating revenues	4	4,605,892	4,738,679
Operating expenses			
Purchases of goods and changes in inventories		(1,513,411)	(1,409,267)
Staff costs		(756,565)	(688,211)
Depreciation and amortisation		(482,180)	(405,638)
Rental expenses		(956,971)	(1,219,632)
Other operating expenses		(1,098,666)	(1,110,403)
Total operating expenses		(4,807,793)	(4,833,151)
Loss from operations	5	(201,901)	(94,472)
Gain from disposal of a subsidiary		1,282,861	-
Goodwill impairment		(402,007)	-
Finance income	6	80,314	130,183
Finance costs	6	(166,852)	(166,297)
Share of profit/(loss) of :			
A joint venture		19,302	24,027
Associates		(6,265)	(12,141)
Profit/(loss) from operations before income tax		605,452	(118,700)
Income tax expenses	7	(451,323)	(63,935)
Profit/(loss) for the year		154,129	(182,635)
Profit/(loss) attributable to:			
Owners of the parent		147,257	(186,154)
Non-controlling interests		6,872	3,519
		154,129	(182,635)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		RMB0.056	(RMB0.069)
Diluted		RMB0.056	(RMB0.069)
DIVIDEND PER SHARE	9		
Interim		RMB0.02	RMB0.04
Proposed final		-	RMB0.01
		RMB0.02	RMB0.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Profit/(loss) for the year	154,129	(182,635)
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation	(243,056)	(227,354)
Other comprehensive income for the year, net of tax	(243,056)	(227,354)
Total comprehensive income for the year	(88,927)	(409,989)
Loss attributable to:		
Owners of the parent	(95,799)	(413,508)
Non-controlling interests	6,872	3,519
	(88,927)	(409,989)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	**2016**	**2015**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		3,991,438	5,151,089
Investment properties		36,253	23,546
Prepaid land lease payments		421,123	434,436
Intangible assets		1,806,060	2,224,708
Investment in a joint venture		28,612	29,056
Investment in associates		49,124	55,389
Other assets		331,839	404,146
Deferred tax assets		223,948	281,958
Total non-current assets		6,888,397	8,604,328
CURRENT ASSETS			
Inventories		368,368	390,770
Trade receivables	10	120,345	61,130
Prepayments, deposits and other receivables		563,503	794,828
Investment in principal guaranteed deposits		4,256,500	2,075,120
Time deposits		105,880	297,354
Cash and cash equivalents		864,010	980,899
Dividend receivables		-	21,122
Total current assets		6,278,606	4,621,223
CURRENT LIABILITIES			
Trade payables	11	(1,483,454)	(1,494,092)
Customers' deposits, other payables and accruals		(1,551,472)	(1,604,341)
Interest-bearing bank loans		(538,991)	(644,186)
Tax payable		(258,751)	(45,434)
Total current liabilities		(3,832,668)	(3,788,053)
NET CURRENT ASSETS		2,445,938	833,170
TOTAL ASSETS LESS CURRENT LIABILITIES		9,334,335	9,437,498

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Bonds	(3,349,211)	(3,227,112)
Interest-bearing bank loans	(75,622)	(146,077)
Long term payables	(675,146)	(744,576)
Deferred tax liabilities	(358,564)	(280,419)
Total non-current liabilities	(4,458,543)	(4,398,184)
NET ASSETS	4,875,792	5,039,314
EQUITY		
Equity attributable to owners of the parent		
Issued capital	55,739	56,408
Treasury shares	(10,623)	(13,308)
Reserves	4,775,930	4,929,168
	4,821,046	4,972,268
Non-controlling interests	54,746	67,046
TOTAL EQUITY	4,875,792	5,039,314

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 Room 609, 6th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong. In the opinion of the Directors, the Company's ultimate holding company is Parkson Holdings Berhad ("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 2016 (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	
	2016	**2015**
	RMB'000	RMB'000
Sales of goods – direct sales	1,775,177	1,638,052
Concessionaire sales	11,668,614	13,109,347
Total merchandise sales	13,443,791	14,747,399
Others (including consultancy and management service fees, rental income and other operating revenues)	869,237	845,329
Total gross sales proceeds	14,313,028	15,592,728
Total gross sales proceeds (inclusive of value-added tax)	16,598,473	18,099,786

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION

	For the year ended 31 December	
	2016	**2015**
	RMB'000	RMB'000
Sales of goods – direct sales	1,775,177	1,638,052
Commissions from concessionaire sales	1,961,478	2,255,298
Rental income	384,114	327,273
Consultancy and management service fees	12,792	11,998
Other operating revenues	472,331	506,058
Total operating revenues	4,605,892	4,738,679

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	
		2016	**2015**
	Note	RMB'000	RMB'000
Promotion income		79,693	92,647
Administration and credit card handling fees		151,642	135,572
Government grants	(i)	7,783	2,996
Other incomes		233,213	274,843
		472,331	506,058

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. LOSS FROM OPERATIONS

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

	For the year ended 31 December 2016 RMB'000	2015 RMB'000
Cost of inventories recognised as expenses	1,513,411	1,409,267
Staff costs excluding directors' and chief executive's remuneration:		
Wages, salaries and bonuses	559,365	503,986
Pension scheme contributions	75,563	70,599
Social welfare and other costs	112,310	107,445
	747,238	682,030
Depreciation and amortisation	482,180	405,638
Impairment of inventories	18,068	1,800
Impairment of other receivables	2,994	11,600
Impairment of intangible assets	13,609	-
Impairment of property, plant and equipment	9,637	-
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	821,880	1,056,073
Contingent lease payments *	135,091	163,559
	956,971	1,219,632
Loss on disposal of items of property, plant and equipment	8,676	7,479
Auditors' remuneration	5,474	5,592
Gross rental income in respect of investment properties	(5,345)	(3,848)
Sub-letting of properties:		
Minimum lease payments #	(298,094)	(226,921)
Contingent lease payments *	(80,675)	(96,504)
	(378,769)	(323,425)
Total gross rental income	(384,114)	(327,273)
Direct operating expenses arising on rental-earning investment properties	1,109	698

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 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	
	2016	**2015**
	RMB'000	RMB'000
Finance income:		
Bank interest income	69,109	130,183
Bonds repurchase gain	11,205	-
	80,314	130,183
Finance costs:		
Bonds	(157,558)	(146,006)
Interest-bearing bank loans	(9,294)	(20,291)
	(166,852)	(166,297)
Finance costs, net	(86,538)	(36,114)

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	
	2016	**2015**
	RMB'000	RMB'000
Current income tax	316,181	131,860
Deferred income tax	135,142	(67,925)
	451,323	63,935

8. EARNINGS/ (LOSS) PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2016 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB147,257,000 and the weighted average number of 2,650,325,000 shares in issue during the year.

The calculation of basic loss per share for the year ended 31 December 2015 was based on the net loss attributable to equity shareholders of the Company for the year of approximately RMB186,154,000 and the weighted average number of 2,705,494,000 shares in issue during the 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 2016 and 2015 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. DIVIDEND

	For the year ended 31 December	
	2016	**2015**
	RMB'000	RMB'000
Interim – RMB0.02 (2015: RMB0.04) per ordinary share	52,985	108,293
Proposed final – nil (2015: RMB0.01) per ordinary share	-	26,723
	52,985	135,016

The Board of Directors approved the payment of an interim dividend for 2016 of RMB0.02 (2015: RMB0.04) in cash per share, with a payout ratio of 36% (interim and final dividend payout ratio for 2015: more than 100%). The interim 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 8 March 2017.

The interim dividend will be payable on or before 31 March 2017 to the shareholders whose name appears on the Register of Members of the Company at the close of business on 8 March 2017.

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	
	2016	**2015**
	RMB'000	RMB'000
Within 3 months	120,268	60,943
4 to 12 months	37	184
Over 1 year	40	3
	120,345	61,130

Included in the balance as at 31 December 2016 are trade receivables from a joint venture of RMB1,035,000 (2015: RMB1,445,000) 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	
	2016	**2015**
	RMB'000	RMB'000
Within 3 months	1,307,154	1,382,122
4 to 12 months	138,402	76,193
Over 1 year	37,898	35,777
	1,483,454	1,494,092

12. CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Tuesday, 7 March 2017 to Wednesday, 8 March 2017 (both dates inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 pm on Monday, 6 March 2017.

For determining the entitlement to attend and vote at the annual general meeting of the Company which is scheduled on Thursday, 18 May 2017 ("AGM"), the register of members of the Company will be closed from Friday, 12 May 2017 to Thursday, 18 May 2017, 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 pm on Thursday, 11 May 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

2016 proved to be another challenging year for traditional retailers in China, as e-commerce trends, new retail concepts and technologies continue to change long-established market landscape.

Indeed, change was the prominent theme during the year, both internationally and domestically; and the retail industry in China faced its own distinct changes, reflecting shifts in consumer behaviour.

Today's Chinese consumers are more selective and increasingly brand conscious. International brands are still generally favoured, but quality local brands are growing fast and becoming more competitive. Consumers are also now seeking a more balanced life, with health, family, entertainment and experiences taking priority.

Parkson's operations have not been immune from these changes and developments, but as a Group that encourages and embraces change, innovation and creativity, we understand that retailing is a dynamic business that requires continuous reinvention and adaption to meet consumers' expectations.

With this in mind, we are committed to transforming in close alignment with an evolving market. However, we are also encouraged by more recent signs that the market has renewed confidence in the future of the physical retail format, with many e-commerce players opening or considering offline retail outlets.

During the year, the Group has taken many diligent and progressive steps forward in the execution of its transformation strategies, both online and offline, and we have received encouraging feedback from consumers.

In the following sections, we provide an update on the Group's financial performance, business activities and the advancement of our transformation plans, resources alignment, as well as the optimization of our operations.

2016 FINANCIAL PERFORMANCE

China's Gross Domestic Product ("GDP") grew by 6.7% last year – the country's lowest annual growth rate in recent years. Against this slowing economic backdrop, the Group recorded a decline of Gross Sales Proceeds ("GSP") by 8.3% to RMB16,598.5 million, together with a 6.7% reduction in Same Store Sales ("SSS").

REMAINING FOCUSED AND DELIVERING CHANGE

Despite market headwinds, the Group has been determined in its approach to executing its transformation plans, and during the year, Parkson saw progress in a number of areas.

In terms of diversifying the retail format, the first Parkson Newcore Citymall was officially opened in January 2016 in Shanghai. This was the first off-price retail city mall that offers value for money products in a vibrant, energetic and innovative shopping environment. The Parkson Newcore Citymall was welcomed by consumers who have enjoyed the new concepts and ideas. Sales of this Korean-themed outlet increased visibly in 2016 compared to the year before. Building on the success of this Korean-themed outlet and the joint venture with E•Land Group, the Group will be opening the second Parkson Newcore Citymall in Nanchang during the first half of 2017.

In June 2016, the Group achieved a remarkable milestone with the grand opening of the 230,000 sqm Qingdao Lion Mall, signifying the Group's move into the shopping mall segment in China. As the Group's pilot lifestyle development, the Qingdao Lion Mall showcased Parkson's department store, supermarket, fashion labels and food and beverage ("F&B") offerings, alongside over 200 other brands to consumers in the city all under one roof.

The Group launched its first gourmet supermarket, the "Parkson Supermarket" in September 2016. This Parkson branded standalone supermarket, which is located in the centre of northern Shanghai, offers a wide range of quality local and imported products. Parkson Supermarket targets the emerging middle class and family customers who are looking for premium and quality lifestyle choices. The Parkson Supermarket emphasizes an interactive grocery shopping experience through regular offerings of food tasting and cooking classes.

The Group also strengthened its lifestyle offerings through an enhanced and enriched variety of F&B products. A flagship bakery store under the name of "Hogan Bakery" was opened in the iconic Shanghai landmark "Xin Tian Di". Hogan is a handmade bakery from Taiwan and it has been warmly received by consumers looking for a fresh and enticing bakery.

Technological and online development was another feature of the year for Parkson, which saw the Group officially launching a mobile shopping application, Parkson Plaza (“百盛商城”). The application enables selected categories of products to be offered at a synchronized time across different platforms. By giving online consumers a choice to pick up their orders at Parkson stores, the mobile application is effectively a platform that channels online consumers to our physical stores.

Parkson's customer loyalty programme underwent an upgrade in 2016. Through collaboration with valued and respected partners, the Group was able to offer unique and exciting benefits to cardholders. For example, VIP members can now enjoy world class performances at the Shanghai Mercedes-Benz Arena. As of 31 December 2016, Parkson loyalty card members exceeded 8.1 million across China.

UNLOCKING HIDDEN VALUE

During the period under review, the Group has taken many steps to optimize the effectiveness and efficiency of its operations. Having conducted a root and branch review on its store network, we have closed six underperforming stores, terminated a relocation project, and transformed one store into Parkson Newcore Outlet in 2016.

The Group has monetized an underperforming asset through the disposal of Beijing Huadesheng. The disposal generated total cash inflow of RMB2.32 billion to the Group, unlocking resources to fuel future investments and developments.

Moving forward, the Group will continue with its store network optimization exercise and continue to explore opportunities to unlock value within its under-performing assets.

LOOKING AHEAD WITH CONFIDENCE

The Group has seen a rebound of its SSS with a positive growth of 1.4% in 2016 Q4 and encouraging market developments for offline physical retailers which is consistently reassured by the proliferating affluent Chinese consumers.

The Chinese State Council released a circular to promote innovative transformation within the offline retail sector in November 2016, signaling important government support. We believe these positive policies, coupled with increasing demand for quality goods and lifestyle experiences from the growing middle class, will make China's retail sector one of the most buoyant and promising business opportunities globally.

Looking ahead, the Group will continue to emphasize its three strategic pillars, namely: retail format and network optimization; product and service offering enhancement; and cross-platform customer engagement.

We have two department stores scheduled for opening in 2017, which are located in Changsha and Chenzhou respectively. Among them is one of our new initiatives, the new concept "Parkson Beauty". This is a specialty store that focuses primarily on premium cosmetic and skin care products. The concept has been carefully developed to capitalize on our core merchandise strength and the latest consumer trends. The "Parkson Beauty" will offer some of the most fashionable products and personalized beauty advice to our valued customers. This new retail concept will also enable us to pivot towards consumers who favour offline shopping, lifestyle and experiences over e-commerce.

Through the introduction of Parkson's own private and fashion labels under distribution, the Group has gained valuable insight on customer preferences, supply chain management and inventory optimization. In 2017, we will use this expertise and experience to enhance our business productivity, and to bolster the development of new products and concepts.

Leveraging on the successful launch of Hogan Bakery, the Group will be diligently increasing its investment in F&B during 2017. We are working to expand Hogan's footprint to cities around Shanghai, and will be introducing more F&B brands targeting different market segments to extend customer appeal.

With Parkson celebrating its 30th anniversary this year, the Group will also be investing to reinvigorate and refresh the "Parkson" brand in China. Interactive programmes will be launched to show appreciation to our loyal customers who have grown with us, while innovative mobile and web based programmes will be launched to engage with younger generations.

Given our dedication and commitment to growth and success in China, the Group is confident of delivering our transformational strategy and creating long term value for shareholders. The Board and executive management team would also like to take this opportunity to express their sincere gratitude to Parkson's employees, customers, shareholders, suppliers and partners for all their unstinting efforts and contributions over the past year.

Financial Review

GSP and operating revenues

While we have seen positive market signal towards the end of 2016, overall market headwind for 2016 remained strong with lower GDP growth rate, intensifying competition and change in market landscape. GSP (consists of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues) and merchandise gross margin decreased by 8.3% Year On Year (“YOY”) to RMB16,598.5 million (inclusive of value-added tax) in the financial year of 2016 (“FY2016”). The Group recorded positive SSS growth of 1.4% for Q4 versus a decline of 9.0% in the first 9 months of 2016.

Merchandise sales totaled to approximately RMB13,443.8 million (net of value-added tax) in FY2016. Concessionaire sales continued to be the key sales driver and had contributed approximately 86.8% of merchandise sales for FY2016. The balance of 13.2% came from direct sales. Merchandise mix remained stable with the Fashion & Apparel category contributing approximately 46.5% of the total merchandise sales, the Cosmetics & Accessories category contributing approximately 44.2%, the Household & Electrical category contributing approximately 3.8% and the balance of approximately 5.5% contributed by the Groceries and Perishables category.

Group’s merchandise gross margin (a combination of concessionaire commission rate and the direct sales margin) decreased by 0.3% to 16.5% in FY2016. The retail sector remained challenging and highly competitive in 2016 as promotions and discounts continued to be the most effective measures for retailers to gain and retain market shares.

Total operating revenues of the Group decreased by RMB132.8 million or 2.8% to RMB4,605.9 million in FY2016 due to the decline in commissions from concessionaire sales of RMB293.8 million. This decrease is partially offset by the increase in direct sales of RMB137.1 million, attributed to strong performance of the cosmetics department as well as contribution from fashion house brands and private labels development as part of our transformation initiatives. Rental income grew by RMB56.8 million to RMB384.1 million, mainly contributed by rental income from the Lion Mall which was opened for business in April 2016.

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 in direct sales, cost of sales in 2016 increased by RMB104.1 million to RMB1,513.4 million as compared to 2015.

Staff costs

Staff costs increased by 9.9% YOY to RMB756.6 million. The increase was primarily attributable to contribution from new stores, additional headcount from new ventures and salary adjustment in line with general wage rise in China. On same store basis, staff cost decreased by 2.0%. To cope with the continuous increase in staff costs, measures like the replacement of cashiers with more mobile payment portals have been taken to improve staff productivity and reduce headcount.

As a percentage to GSP, the staff cost ratio increased from 4.4% to 5.3%.

Depreciation and Amortization

Depreciation and amortization increased by 18.9% YOY to RMB482.2 million. The increase is mainly contributed by depreciation from new openings and new venture like the Lion Mall. On same store basis, the depreciation and amortization costs increased by 8.7%, mainly due to one-off items like impairment provisions made for the store closure plan in 2017 of RMB14.7 million. Excluding these one off items, depreciation and amortization on same basis would have been almost unchanged compared to 2015.

As a percentage to GSP, depreciation and amortization cost ratio increased from 2.4% to 3.4%.

Rental Expenses

Rental expenses decreased by 21.5% to RMB957.0 million, mainly due to i) reversal of straight-line adjustments triggered by store closures in 2016 and potential store closures in 2017 of RMB150.6 million and ii) high base of 2015 which included an one-off litigation loss in respect of the arbitral award arising from the disputes on the Beijing Metro City Shopping Plaza’s tenancy agreement of RMB138.3 million. Excluding the reversal of straight-line adjustment for potential store closures, rental expenses increased by 2.5%, on same store basis due to lease rental agreements renewed during the year.

As a percentage to GSP, the rental expenses ratio decreased from 7.8% to 6.7%.

Other Operating Expenses

Other operating expenses which consist of (a) utilities cost; (b) marketing, promotional and selling expenses; (c) property management expenses; and (d) general administrative expenses decreased to RMB1,098.7 million, a decrease of 1.1% or RMB11.7 million due to management’s effort to rationalize cost within the Group. On a same store basis, other operating expenses decreased by 6.3%.

As a percentage to GSP, other operating expenses ratio increased from 7.1% to 7.7%.

Loss from Operations

The Group incurred a loss from operations of RMB201.9 million for FY2016. Such loss was mainly attributable to pressure on top line and margin from market headwinds which has led to drops in both sales and gross profit.

As a percentage to GSP, the loss from operations margin decreased from (0.6%) last year to (1.4%) in FY2016. On a same store basis, profit from operations has declined by 56.7% on a YOY basis.

Finance income/ Finance (costs)

The Group's finance income decreased by RMB49.9 million to RMB80.3 million in FY2016. The decrease in finance income was attributable to the decrease in interest rates and average cash balances during the year.

The Group's finance cost in FY2016 of RMB166.9 million was relatively unchanged compared to last year.

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 to RMB19.3 million from RMB24.0 million recorded in the financial year of 2015 due to weak consumer sentiment around that region and remodeling work carried out in the store during the year.

Share of Loss from Associates

This is the share of results from i) Shanghai Nine Sea Lion Properties Management Co. Ltd, ii) Parkson Newcore Retail Shanghai Ltd, and iii) Rite BOS Sdn. Bhd. The share of loss is mainly attributable to losses incurred by Parkson Newcore Retail Shanghai Ltd during its gestation period.

Profit/(Loss) from operations before income tax ("PBT")

During FY2016, the Group recorded two signification one-off items, i) gain of RMB1,282.9 million from a disposal and ii) impairment of RMB402.0 million for goodwill.

In December 2016, the Group completed the disposal of the entire equity interest in Beijing Huadesheng Property Management Co., Ltd (北京華德盛物業管理有限公司), a wholly-owned PRC subsidiary and the relevant shareholder's loan. The Group received cash proceeds of RMB2.32 billion from the disposal, which will be used to fuel future investments and business developments.

The Group recognized a non-cash impairment charge of RMB402.0 million for goodwill of underperforming and closed stores in 2016.

Due to the aforesaid reasons, the Group has recorded a profit before tax of RMB605.4 million compared to a loss before tax of RMB118.7 million in 2015. As a percentage to GSP, PBT ratio increased from (0.8%) to 4.2%.

Income Tax Expenses

The Group's income tax expenses increased by RMB387.4 to RMB451.3 million in 2016, mainly due to tax payable of RMB317.9 million accrued for the one-off disposal gained.

Profit/(Loss) for the year

The Group recorded a net profit of RMB154.1 million for FY2016, an increase RMB336.7 million compared to 2015. As a percentage to GSP, the net profit margin increased from (1.2%) to 1.1%.

Profit/(Loss) Attributable to the Group

Profit attributable to the Group was RMB147.3 million in FY2016, an increase of RMB333.4 million or 179.1% from 2015.

Liquidity and Financial Resources

As at 31 December 2016, 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 RMB5,226.4 million, representing an increase of 55.9% from balance as at 31 December 2015 of RMB3,353.4 million. The increase was primarily due to (i) net cash inflow from operating activities amounted to RMB431.4 million; (ii) net cash inflow from investing activities amounted to RMB2,007.1 million; and (iii) net cash outflow from financing activities amounted to RMB565.5 million.

Total debt to total assets ratio of the Group was 30.1% as at 31 December 2016.

Current Assets and Net Assets

The Group's current assets as at 31 December 2016 was approximately RMB6,278.6 million, a increase of 35.9% or RMB1,657.4 million YOY. Net assets of the Group as at 31 December 2016 decreased by 3.2% to RMB4,875.8 million.

Pledge of Assets

As at 31 December 2016, the Group has onshore pledged deposits of RMB647.0 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 2016, total number of employees for the Group was 7,733. 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 2016 is as follows:

	As at 1 January 2016	Share options granted	Share options exercised	Share options lapsed	Share options expired	As at 31 December 2016
Lot 5	10,010,250	-	-	(1,074,750)	(8,935,500)	-
	10,010,250	-	-	(1,074,750)	(8,935,500)	-

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 2016, the Company repurchased 37,744,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of RMB28,700,000 (approximately HK$33,290,100). 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 2016.

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 2016.

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 2016.

AUDIT COMMITTEE

An Audit Committee (the "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 2016. The Committee comprises the non-executive Director 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

20 February 2017

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