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 2017

HIGHLIGHTS

Operating profit for 2017 was RMB83.7 million, a turnaround increase of RMB285.6 million compared to the operating loss of RMB201.9 million recorded in 2016.

Same Store Sales ("SSS") increased by 3.2% and 1.3% during the fourth quarter ("Q4") and financial year 2017 ("FY2017") respectively.

Total Gross Sales Proceeds ("GSP") decreased by 3.9% to RMB15,953.8 million due to decrease in store numbers.

The Group recorded loss attributable to owners of the parent of RMB136.0 million in FY2017, mainly due to one-off losses recorded during the year. Excluding these one-off items, the Group's loss attributable to owners of the parent would be RMB17.5 million, an improvement of RMB395.4 million compared to FY2016's results excluding one-off items. Profit attributable to owners of the parent of RMB147.3 million in 2016 was inclusive of one-off disposal gain of RMB1,282.9 million and one-off impairment loss of RMB402.0 million. Excluding these one-off items, the Group's loss attributable to owners of the parent for FY2016 would have been RMB412.9 million.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 2017 with comparative figures for the year 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**For the year ended 31 December 2017** *RMB'000*	**2016** *RMB'000*
Revenues		4,205,736	4,133,561
Other operating revenues		471,507	472,331
Total operating revenues	4	4,677,243	4,605,892
Operating expenses			
Purchases of goods and changes in inventories		(1,724,748)	(1,513,411)
Staff costs		(687,257)	(756,565)
Depreciation and amortisation		(315,818)	(482,180)
Rental expenses		(945,403)	(956,971)
Other operating expenses		(920,354)	(1,098,666)
Total operating expenses		(4,593,580)	(4,807,793)
Profit/(Loss) from operations	5	83,663	(201,901)
Finance income	6	149,776	80,314
Finance costs	6	(172,984)	(166,852)
Share of profit/(loss) of :			
A joint venture		18,539	19,302
Associates		(4,274)	(6,265)
One-off items:			
Gain on disposal of a subsidiary		-	1,282,861
Impairment of goodwill		(820)	(402,007)
Impairment of investment in associates		(17,582)	-
Provision for litigation settlement		(100,000)	-
(Loss)/Profit from operations before income tax		(43,682)	605,452
Income tax expenses	7	(90,071)	(451,323)
(Loss)/Profit for the year		(133,753)	154,129
(Loss)/Profit attributable to:			
Owners of the parent		(135,952)	147,257
Non-controlling interests		2,199	6,872
		(133,753)	154,129
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		(RMB0.052)	RMB0.056
Diluted		(RMB0.052)	RMB0.056
DIVIDEND PER SHARE	9		
Interim		-	RMB0.02
Proposed final		-	-
		-	RMB0.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
(Loss)/Profit for the year	(133,753)	154,129
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation	241,841	(243,056)
Other comprehensive income for the year, net of tax	241,841	(243,056)
Total comprehensive income for the year	108,088	(88,927)
Profit/(loss) attributable to:		
Owners of the parent	105,889	(95,799)
Non-controlling interests	2,199	6,872
	108,088	(88,927)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2017 *RMB'000*	 2016 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		3,797,592	3,991,438
Investment properties		33,634	36,253
Prepaid land lease payments		407,810	421,123
Intangible assets		1,759,987	1,806,060
Investment in a joint venture		30,260	28,612
Investment in associates		27,200	49,124
Other assets		211,023	331,839
Deferred tax assets		200,102	223,948
Total non-current assets		6,467,608	6,888,397
CURRENT ASSETS			
Inventories		324,694	368,368
Trade receivables	10	136,496	120,345
Prepayments, deposits and other receivables		528,895	563,503
Investment in principal guaranteed deposits		3,160,460	4,256,500
Time deposits		26,065	105,880
Financial assets at fair value through profit or loss		1,604,430	-
Cash and cash equivalents		726,724	864,010
Total current assets		6,507,764	6,278,606
CURRENT LIABILITIES			
Trade payables	11	(1,473,227)	(1,483,454)
Customers' deposits, other payables and accruals		(1,564,022)	(1,551,472)
Interest-bearing bank loans		(693,177)	(538,991)
Bonds		(3,162,523)	-
Tax payable		(42,497)	(258,751)
Total current liabilities		(6,935,446)	(3,832,668)
NET CURRENT (LIABILITIES)/ASSETS		(427,682)	2,445,938
TOTAL ASSETS LESS CURRENT LIABILITIES		6,039,926	9,334,335

	As at 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Bonds	-	(3,349,211)
Interest-bearing bank loans	(95,566)	(75,622)
Long term payables	(704,567)	(675,146)
Deferred tax liabilities	(320,688)	(358,564)
Total non-current liabilities	(1,120,821)	(4,458,543)
NET ASSETS	4,919,105	4,875,792
EQUITY		
Equity attributable to owners of the parent		
Issued capital	55,477	55,739
Treasury shares	-	(10,623)
Reserves	4,818,486	4,775,930
	4,873,963	4,821,046
Non-controlling interests	45,142	54,746
TOTAL EQUITY	4,919,105	4,875,792

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 2017 (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	
	2017	**2016**
	RMB'000	RMB'000
Sales of goods – direct sales	2,013,822	1,775,177
Concessionaire sales	10,869,291	11,668,614
Total merchandise sales	12,883,113	13,443,791
Others (including consultancy and management service fees, rental income and other operating revenues)	880,521	869,237
Total gross sales proceeds	13,763,634	14,313,028
Total gross sales proceeds (inclusive of value-added tax)	15,953,763	16,598,473

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION

	For the year ended 31 December	
	2017	**2016**
	RMB'000	RMB'000
Sales of goods – direct sales	2,013,822	1,775,177
Commissions from concessionaire sales	1,782,900	1,961,478
Rental income	399,670	384,114
Consultancy and management service fees	9,344	12,792
Other operating revenues	471,507	472,331
Total operating revenues	4,677,243	4,605,892

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	
		2017	**2016**
	Note	RMB'000	RMB'000
Promotion income		80,006	79,693
Administration and credit card handling fees		141,144	137,314
Government grants	(i)	4,907	7,783
Other incomes		245,450	247,541
		471,507	472,331

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/(LOSS) FROM OPERATIONS

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

	For the year ended 31 December	
	2017	**2016**
	RMB'000	RMB'000
Cost of inventories recognised as expenses	1,724,748	1,513,411
Staff costs excluding directors' and chief executive's remuneration:		
Wages, salaries and bonuses	512,683	559,389
Pension scheme contributions	69,415	75,563
Social welfare and other costs	96,186	112,334
	678,284	747,286
Depreciation and amortisation	315,818	482,180
Impairment of inventories	115	18,068
Impairment of other receivables	(584)	2,994
Impairment of property, plant and equipment	-	9,637
Impairment of intangible assets other than goodwill	37,933	13,609
Impairment of goodwill	820	402,007
Impairment of investment in associates	17,582	-
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	811,590	821,880
Contingent lease payments *	133,813	135,091
	945,403	956,971
Loss on disposal of items of property, plant and equipment	26,376	8,676
Gain on disposal of a subsidiary	-	(1,282,861)
Provision for litigation settlement	100,000	-
Auditors' remuneration	4,064	3,930
Gross rental income in respect of investment properties	(5,361)	(5,345)
Sub-letting of properties:		
Minimum lease payments #	(250,906)	(298,094)
Contingent lease payments *	(143,403)	(80,675)
	(394,309)	(378,769)
Total gross rental income	(399,670)	(384,114)
Direct operating expenses arising on rental-earning investment properties	1,074	1,109

\# 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	
	2017	**2016**
	RMB'000	RMB'000
Finance income:		
Bank interest income	149,776	69,109
Bonds repurchase gain	-	11,205
	149,776	80,314
Finance costs:		
Bonds	(154,900)	(157,558)
Interest-bearing bank loans	(18,084)	(9,294)
	(172,984)	(166,852)
Finance costs, net	(23,208)	(86,538)

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	
	2017	**2016**
	RMB'000	RMB'000
Current income tax	104,101	315,168
Deferred income tax	(14,030)	136,155
	90,071	451,323

8. (LOSS)/ PROFIT PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the net loss attributable to equity shareholders of the Company for the year of approximately RMB135,952,000 and the weighted average number of 2,634,532,250 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2016 was 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 diluted earnings per share amounts is based on the (loss)/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 2017 and 2016 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	
	2017	**2016**
	RMB'000	RMB'000
Interim –nil (2016: RMB0.02) per ordinary share	-	52,985
Proposed final – nil (2016: nil) per ordinary share	-	-
	-	52,985

The Board of Directors does not recommend the payment of interim and final dividend for 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	
	2017	**2016**
	RMB'000	RMB'000
Within 3 months	136,149	120,268
4 to 12 months	308	37
Over 1 year	39	40
	136,496	120,345

Included in the balance as at 31 December 2017 are trade receivables from a joint venture of RMB350,000 (2016: RMB1,035,000) 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	
	2017	**2016**
	RMB'000	RMB'000
Within 3 months	1,409,870	1,307,154
4 to 12 months	46,059	138,402
Over 1 year	17,298	37,898
	1,473,227	1,483,454

12. POST BALANCE SHEET EVENTS

Update on litigation case

A subsidiary of the Company, Hefei Parkson Xiaoyao Plaza Company Limited ("Hefei Parkson") has entered into a Settlement Agreement with the relevant parties for the purpose of settling the litigation with a third party plaintiff in relation to ownership dispute of the 51% equity interests of the Anshan Tianxing Parkson Shopping Centre Company Limited ("Anshan Parkson").

Pursuant to the Settlement Agreement, Serbadagang Holdings Sdn. Bhd. (a connected person of the Company) ("Serbadagang") and Hefei Parkson have entered into a Compensation Agreement whereby (i) Hefei Parkson shall pay an initial compensation of RMB100.0 million to Serbadagang on or before 30 April 2018; (ii) Hefei Parkson shall further negotiate with Serbadagang on a possible additional compensation; and (iii) the possible additional compensation is subject to Hefei Parkson and Serbadagang entering into a legally binding agreement on or before 30 June 2018.

As at 31 December 2017, a provision of RMB100.0 million has been accrued for the initial compensation while the contingent additional compensation is yet to be provided for as the amount can yet to be estimated reasonably. Further details of the litigation case are available in the Company announcement published on 12 February 2018.

Bonds buy back

On 3 May 2013, the Company issued the 4.5% bonds due 2018 (the "Bonds") with an aggregate principal amount of US$500.0 million, which were listed on the Stock Exchange.

On 19 December 2017, the Company entered into a RMB3,500.0 million facility agreement with the Bank of Beijing (Shanghai branch) ("BOB"). The facility is secured by two properties situated in Beijing and Qingdao, which are owned by the two subsidiaries of the Company, Parkson Retail Development Co., Ltd. and Qingdao Lion Plaza Retail Management Co., Ltd. respectively. On 24 January 2018, the Company entered into a loan agreement of US$261.7 million with BOB for the purposes of its Bonds' tender offer, the amount had been drawdown on the same day. The loan agreement is under the facility mentioned above, has a three years tenure commencing from the date of the first drawdown and is secured by the Group's time deposits of RMB730.0 million. The loan bears interest at floating LIBOR (3 months) plus 2.05% per annum. Interest is payable quarterly in arrears on the 21st of each quarter end. The loan also bears an annual handling fee of 1.43%. The principal of the term loan is repayable on 23 January 2021.

On 19 January 2018, a sum of US$258,939,000 of the principal amount of the Bonds, representing approximately 53.4% of the aggregate principal amount of the Bonds outstanding, had been validly tendered. Following the settlement of the tender offer, US$225,561,000 of the principal amount of the Bonds will remain outstanding.

13. CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company which is scheduled on Monday, 21 May 2018 ("AGM"), the register of members of the Company will be closed from Tuesday, 15 May 2018 to Monday, 21 May 2018, 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 Monday, 14 May 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The Chinese economy recorded a steady Gross Domestic Product ("GDP") growth rate of 6.9% in 2017, exceeding the national target of 6.5% and the previous year's growth rate of 6.7%. A key driving force behind the economic growth was consumption evident by the retail sales growth of 10.2% year-on-year.

New retail driving growth

"New retail" which is represented by a trend to merge e-commerce and physical retail stores seamlessly has flourished in China. The evolution of "new retail" has called for more personalized consumer experience and physical retail stores' presence. Tech giants has been investing actively in physical retail companies, including department stores and supermarket chains to expand their offline presence.

While the emergence of "new retail" has brought a lot of challenges to the entire retail industry in China, we see ample opportunities and positive signs ahead of us. Physical stores are increasingly benefiting from nationwide shopping festivals like the "Singles' Day" which originated online. At Parkson, we have boosted our online marketing campaign and thus captured the opportunities brought by these online shopping festivals. For example, on the Singles' Day in 2017, we have recorded a GSP of RMB188.5 million, presenting growth of 48.1%.

As a retailer with over two decades of retail experience in the country, we possess in-depth and first-hand understanding of consumer demand and expectations. We appreciate that Chinese consumers are increasingly discerning and they are not only brand conscious, but also quality focused. The new generation of Chinese is also looking for quality lifestyle, healthier food and entertainment to enjoy a balanced life. With such consumer insights, we have rolled out a series of new retail formats to cater to their dynamic demand for the past few years. Our financial figures have shown initial success. SSS grew by 3.2% in Q4 of 2017, compared with 1.4% during the same period last year. SSS in 2017 grew by 1.3%, turning around from a decline of 6.7% in 2016. The increase was mainly attributable to the strong performance of our department stores' direct sales and the successful roll out of new retail formats like the Qingdao Lion Mall.

Diversified retail formats on the right track

In 2017, we have seen many encouraging returns for our new retail initiatives. For instance, we launched the Qingdao Lion Mall in 2016 which offers over 200 brands with Parkson department store and Parkson supermarket as anchor tenants. Qingdao Lion Mall's has achieved an occupancy rate of more than 95% since its opening and the high occupancy is backed by its carefully selected tenant mix and merchandise offering that fits local consumers. Constantly launching creative marketing campaigns, both online and offline, also helped to drive its successful launch. The mall has turned profitable during its first full year of operation in 2017 and we shall continue our efforts to optimize its tenant mix, marketing initiatives and operational efficiency.

Riding on the success of the Qingdao Lion Mall, we have expanded in to the "managed stores" business. In 2017, we were invited by a developer to manage a property in Nanning. Under the "managed stores" business model, the Group will manage commercial properties on behalf of property owners in return of management fees. The "managed stores" business is in line with our asset light model, and generates stable income stream for the group.

Our Parkson Newcore Citymall brand, a joint venture with Korea's E • Land Group, added another store under the brand in 2017. The first Parkson Newcore Citymall which was opened in Shanghai is well known for its popular Korean themed merchandise and lifestyle elements and has achieved outstanding financial and operational performance right since its opening. Following its success, we opened the second Parkson Newcore Citymall in Nanchang in May 2017.

We have been developing our food and beverage ("F&B") business since 2015 to offer a wide variety of F&B brands to the local consumers, as Chinese consumers become healthier and more lifestyle conscious. Our F&B outlets aim to offer a cozy, affordable and trendy dining experience to consumers in between shopping, to enhance our customer experience and to create synergies for our retail and F&B business. One of our key F&B brands is the renowned handmade Taiwan bakery brand "Hogan Bakery" that was introduced to China in 2016. Started from the iconic "Xin Tian Di" flagship bakery, Hogan Bakery is well received by local consumers and has become a quality brand among millennials and young families. In 2017, we had four "Hogan bakery" in prime locations in Shanghai and a centralized kitchen had been put in place to accelerate the chain's future expansion.

Enhanced customer experience through omni-channel marketing

Chinese consumers are constantly looking for newness and exclusivity. They also yearn for fashion and lifestyle information, especially via social media and mobile platforms. To better serve our target customers, we have dedicated marketing efforts to create social media content tailored for different market segments. During the year under review, we have launched interactive marketing campaigns and festive promotions, together with creative and informative lifestyle, fashion and beauty content that had attracted followers. As at 31 December 2017, our official WeChat account has close to 2.4 million followers, an increase of 26% from 1.9 million followers at the beginning of the year. Such marketing initiatives, coupled with our enhanced online and mobile shopping platform "Parkson Plaza", helped us build an omni-channel community. With an enhanced inventory tracking system, customers on "Parkson Plaza" can now shop for products in all our stores across the nation, driving cross channel sales while offering customers with an enjoyable omni-channel shopping experience.

Our strong relationships with brands and suppliers have positioned us well in developing brand collaboration campaigns. Throughout the year under review, we launched a series of promotional activities in partnership with various beauty, fashion and lifestyle brands. These activities enabled us to acquire loyal customers while strengthening our relationships with international and local brands.

Optimization of operational efficiency

The management's effort in cost rationalization continued to reap fruits in 2017, with the total operating expenses decreased by 12.9% at the group level and by 4.9% on a same store basis respectively. We shall continue to expand the use of mobile point of sales in all our stores to further reduce our operating cost and to enhance customers' shopping experience.

The Group has signed a strategic cooperation framework with BOB in Shanghai in December 2017. In January 2018, the Group has successfully bought back USD258.9 million of our USD bonds utilizing the credit facility granted by BOB. The amount bought back represents approximately 53.4% of the bonds outstanding as at 31 December 2017. Through this exercise, the Group's has successfully extended our debt maturity profile. Positive feedbacks were received from the market with credit rating agencies publishing favorable reports towards this exercise.

During the year under review, we continued to monitor the productivity of our stores. To better utilize our resources, we have closed six underperforming stores situated in Beijing, Chongqing, Zhengzhou, Nanchang, Changshu and Heifei. In 2017, we opened Parkson Newcore Citymall in Nanchang. As of 31 December 2017, we have total of 44 Parkson stores, 2 Parkson Newcore City Malls and 1 Lion Mall in 30 cities in China.

Outlook

We believe our business transformation strategy focusing on diversified retail formats are keeping us on the right track. Looking ahead, we remain confident in the retail industry in China, despite market headwinds. We will continue with our strategies to diversify retail formats, enhance brand and product offerings, optimize our network of stores and enhance our omni-channel shopping experience.

With regards to our diversified retail formats, we plan to leverage on the success of the Citymall model to roll out more Citymall concept stores to capture this growing market segment this year. Hogan Bakery is proven to be very popular among the Shanghai middle class. In 2018, we plan to accelerate expansion of Hogan Bakery outlets in Shanghai and its neighboring cities. Our team will continue to modify our product offering and optimize our brand portfolio for our department stores, in order to cater to the dynamic demand of existing and prospective customers.

To further enhance the omni-channel customer experience, we have entered into a strategic collaboration agreement with Secoo, one of the top tier online luxury retailer in China in January 2018. The partnership aims to share business resources to strengthen omni-channel services to our customers. We shall integrate our membership systems and leverage on the big data analytics to create better customer experience and business opportunities. Our beauty brands will be launched in Secoo’s online and offline stores. A joint beauty festival is in the pipeline to be launched during the first quarter of this year. Our own omni-channel marketing efforts will also be enhanced to build a wider and loyal customer community through social media networks, our VIP programme and personalized customer service.

This year marks the 30th anniversary of the Parkson retail business in Asia and we have established our presence in China since 1994. We remain committed to the retail market in China and will continue to grow the business with the support of our stakeholders. We would like to express our gratitude to our employees, customers, shareholders, suppliers and business partners for their unwavering support throughout the years.

Financial Review

GSP and operating revenues

During the FY2017, GSP (consists of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues) decreased by 3.9% Year On Year ("YOY") to RMB15,953.8 million (inclusive of value-added tax), mainly due to store closures in 2016 and 2017. The Group recorded positive SSS growth of 3.2% in Q4 and 1.3% in FY2017, demonstrating an encouraging rebound of sales trend from the decrease of 6.7% in 2016.

Merchandise sales totaled to approximately RMB12,883.1 million (net of value-added tax) in FY2017. Concessionaire sales continued to be the key sales driver and had contributed approximately 84.4% of merchandise sales in FY2017. The balance of 15.6% came from direct sales. Merchandise mix remain relatively similar compared to previous year with Cosmetics & Accessories category contributed approximately 45.7% of the total merchandise sales, the Fashion & Apparel category contributed approximately 45.5%, the Household & Electrical category contributed approximately 3.5% and the balance of approximately 5.3% came from the Groceries & Perishables category.

Group's merchandise gross margin (a combination of concessionaire commission rate and the direct sales margin) decreased by 0.4% to 16.1% in FY2017 due to change in merchandise mix and fierce promotional competition.

Total operating revenues of the Group increased by RMB71.3 million or 1.5% to RMB4,677.2 million in FY2017 due to the increase in direct sales of RMB238.6 million which was contributed by the strong sales performance of the Cosmetics & Accessories category. This increase is partially offset by the decrease in commissions from concessionaire sales of RMB178.6 million. Rental income grew by RMB15.6 million to RMB399.7 million, mainly contributed by the Qingdao Lion Mall.

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 2017 increased by RMB211.3 million to RMB1,724.7 million as compared to 2016.

Staff costs

Staff costs decreased by 9.2% YOY to RMB687.3 million mainly due to store closures in 2016 and 2017. Impact of the decrease was partially offset by the increase in staff costs contributed by new business ventures like branding, F&B and shopping malls and salary adjustment in line with general wage rise in China. On a same store basis, staff costs decreased by 0.4%, due to the measures taken by management to improve staff productivity, like the replacement of cashiers with more mobile payment portals.

As a percentage to GSP, the staff cost ratio decreased from 5.3% to 5.0%.

Depreciation and Amortization

Depreciation and amortization decreased by 34.5% YOY to RMB315.8 million. The decrease was primarily attributable to savings from stores closed and renovation from old stores that has been fully depreciated in 2017. On a same store basis, the depreciation and amortization costs decreased by 15.2%, mainly due to the fully depreciated assets mentioned above. The group's has been encouraging the use of soft furnishings which are more cost saving and flexible, over capital intensive renovations for recent stores refurbishment.

As a percentage to GSP, depreciation and amortization cost ratio decreased from 3.4% to 2.3%.

Rental Expenses

Rental expenses decreased by 1.2% to RMB945.4 million. On a same store basis, rental expenses decreased by 3.9%. The decrease is due to the lease area adjustment and the management's success in lease contract renegotiation of some stores within the Group.

As a percentage to GSP, the rental expenses ratio increased from 6.7% to 6.9%.

Other Operating Expenses

Other operating expenses which consist of (a) utilities cost; (b) marketing, promotional and selling expenses; (c) property management expenses; (d) general administrative expenses; and (e) city development and educational surcharge, decreased to RMB920.4 million, a decrease of 16.2% or RMB178.3 million due to store closures and 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 decreased from 7.7% to 6.7%.

Profit from Operations

The Group generated a profit from operations of RMB83.7 million for FY2017, a turnaround increase of RMB285.6 million compared to the loss from operations of RMB201.9 million recorded in 2016.

As a percentage to GSP, the profit from operations margin increased from (1.4%) last year to 0.6% in FY2017. On a same store basis, profit from operations has increased by 40.8% on a YOY basis.

Finance income/ Finance (costs)

The Group's finance income increased by RMB69.5 million to RMB149.8 million in FY2017. The increase in finance income was attributable to the increase in average cash balances during the year.

The Group's finance cost increased by RMB6.1 million to RMB173.0 million in FY2017, which was in line with the increase in off-shore bank loans.

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 RMB18.5 million from RMB19.3 million recorded in the FY2016 due to weak consumer sentiment around that region and the increase of staff cost in line with general wage rise in China during the year.

Share of Loss from Associates

This is the share of results from the Group's associated companies. The share of loss is mainly attributable to i) losses incurred by Nanchang Parkson Newcore which opened in May 2017, ii) underperformance of an associated company that is engaged in the information technology business.

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

During FY2017, the Group recorded three one-off items namely, i) provision for litigation settlement of RMB100.0 million, ii) impairment of RMB17.6 million for investment in associates and iii) impairment of RMB0.8 million for goodwill.

The provision for litigation settlement of RMB100.0 million is related to the settlement for the disputes on the equity interests ownership of Anshan Parkson. Please refer to Note 12 for further details.

Due to the aforesaid reasons, the Group has recorded a loss before tax of RMB43.7 million. Excluding these one-off items, the Group would have generated a profit before tax of RMB74.7 million.

As a percentage to GSP, PBT ratio decreased from 4.2% to (0.3%).

Income Tax Expenses

The Group's income tax expenses decreased by RMB361.3 to RMB90.1 million in 2017, mainly due to i) tax payable of RMB317.9 million accrued for the one-off gain of disposal of the entire equity interest in Beijing Huadesheng Property Management Co., Ltd, a wholly-owned PRC subsidiary and the relevant shareholder's loan in FY2016 and ii) reversal of deferred tax expenses due to successful application of beneficial tax rate.

(Loss) /Profit for the year

The Group recorded a net loss of RMB133.8 million for FY2017, a decrease of RMB287.9 million compared to 2016 due to the aforesaid reasons. As a percentage to GSP, the net profit margin decreased from 1.1% to (1.0%).

(Loss) /Profit Attributable to the Group

Loss attributable to the Group was RMB136.0 million in FY2017, a decrease of RMB283.2 million or 192.3% from FY2016.

The Group recorded loss attributable to owners of the parent of RMB136.0 million in FY2017, mainly due to one-off losses recorded during the year. Excluding these one-off items, the Group's loss attributable to owners of the parent would be RMB17.5 million, an improvement of RMB395.4 million compared to FY2016's results excluding one-off items.

Profit attributable to owners of the parent of RMB147.3 million in FY2016 was inclusive of one-off disposal gain of RMB1,282.9 million and one-off impairment loss of RMB402.0 million. Excluding these one-off items, the Group's loss attributable to owners of the parent would be RMB412.9 million.

Liquidity and Financial Resources

As at 31 December 2017, the cash and cash equivalents of the Group (aggregate of principal guaranteed investment deposit, time deposits, financial assets at fair value through profit or loss, and cash and bank balances deposited with licensed banks) stood at RMB5,517.7 million, representing an increase of 5.6% from balance as at 31 December 2016 of RMB5,226.4 million. The increase was primarily due to (i) net cash inflow from operating activities amounted to RMB520.4 million; (ii) net cash outflow from investing activities amounted to RMB212.4 million; and (iii) net cash outflow from financing activities amounted to RMB16.7 million.

Total debt to total assets ratio of the Group was 30.5% as at 31 December 2017.

Current Assets and Net Assets

The Group's current assets as at 31 December 2017 was approximately RMB6,507.8 million, an increase of 3.6% or RMB229.2 million YOY. Net assets of the Group as at 31 December 2017 increased by 0.9% to RMB4,919.1 million.

Pledge of Assets

As at 31 December 2017, the Group has onshore pledged deposits of RMB973.3 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 2017, total number of employees for the Group was 6,325. The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares.

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 2017.

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 2017.

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 2017. 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
Tan Sri Cheng Heng Jem
Executive Director & Chairman

23 February 2018

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.