PARKSON 百盛

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

Total operating revenues for the period increased by RMB25.4 million or 1.1% to RMB2,394.8 million.

Gross profit margin for the period remained resilient at 21.5%, as compared to 21.6% in 1H2017.

Operating profit for the period increased by RMB55.5 million or 78.7% to RMB 126.1 million.

Profit attributable to owners of the parent was RMB17.7 million in 1H2018 as compared to the loss of RMB4.5 million in 1H2017.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of Directors (the "Board") of Parkson Retail Group Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company, its subsidiaries, a joint venture and its associated companies (the "Group") for the six months ended 30 June 2018 ("1H2018") with comparative figures for the corresponding period in the year 2017 ("1H2017"). The unaudited consolidated interim results have been reviewed by the auditors, Ernst & Young and the audit committee of the Company (the "Audit Committee").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**For the six months ended 30 June 2018** *Unaudited RMB'000*	**2017** *Unaudited RMB'000*
Revenues	4	2,158,458	2,121,665
Other operating revenues	4	236,347	247,711
Total operating revenues		2,394,805	2,369,376
Operating expenses			
Purchases of goods and changes in inventories		(952,142)	(857,826)
Staff costs		(339,737)	(359,880)
Depreciation and amortisation		(125,852)	(156,290)
Rental expenses		(454,641)	(485,609)
Other operating expenses		(396,356)	(439,206)
Total operating expenses		(2,268,728)	(2,298,811)
Profit from operations	5	126,077	70,565
Finance costs, net	6	(23,507)	(20,246)
Share of profits/(loss) from:			
A joint venture		8,533	8,547
Associates		3,034	(4,379)
Profit before income tax		114,137	54,487
Income tax expense	7	(80,913)	(54,251)
Profit for the period		33,224	236
Attributable to:			
Owners of the parent		17,650	(4,458)
Non-controlling interests		15,574	4,694
		33,224	236
PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		RMB0.007	(RMB0.002)
Diluted		RMB0.007	(RMB0.002)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six-month period ended 30 June	
	2018	**2017**
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period	33,224	236
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(35,496)	97,391
Other comprehensive income for the period, net of tax	(35,496)	97,391
Total comprehensive income for the period	(2,272)	97,627
Attributable to:		
Owners of the parent	(17,846)	92,933
Non-controlling interests	15,574	4,694
	(2,272)	97,627

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2018** *Unaudited* *RMB'000*	**As at 31 December 2017** *Audited* *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		3,927,026	3,797,592
Investment properties		47,052	33,634
Prepaid land lease payments		401,153	407,810
Intangible assets		1,759,555	1,759,987
Investment in a joint venture		38,793	30,260
Investment in associates		30,234	27,200
Time deposits		1,331,000	-
Other assets		184,336	211,023
Deferred tax assets		191,876	200,102
Total non-current assets		7,911,025	6,467,608
CURRENT ASSETS			
Inventories		322,272	324,694
Trade receivables	10	82,743	136,496
Prepayment, deposits and other receivables		580,545	528,895
Investments in principal guaranteed deposits		1,300,280	3,160,460
Financial assets at fair value through profit or loss		615,363	1,604,430
Time deposits		165,898	26,065
Cash and cash equivalents		1,227,012	726,724
Total current assets		4,294,113	6,507,764
CURRENT LIABILITIES			
Trade payables	11	(1,131,672)	(1,473,227)
Customers' deposits, other payables and accruals		(610,198)	(1,564,022)
Contract liabilities		(719,428)	-
Interest-bearing bank loans		(567,005)	(693,177)
Bonds		-	(3,162,523)
Tax payable		(43,535)	(42,497)
Total current liabilities		(3,071,838)	(6,935,446)
NET CURRENT ASSETS /(LIABILITIES)		1,222,275	(427,682)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,133,300	6,039,926

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2018	**As at 31 December 2017**
	Unaudited	*Audited*
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(3,224,161)	(95,566)
Long term payables	(707,228)	(704,567)
Deferred tax liabilities	(289,240)	(320,688)
Total non-current liabilities	(4,220,629)	(1,120,821)
NET ASSETS	4,912,671	4,919,105
EQUITY		
Equity attributable to owners of the parent		
Issued capital	55,477	55,477
Reserves	4,769,032	4,818,486
	4,824,509	4,873,963
Non-controlling interests	88,162	45,142
TOTAL EQUITY	4,912,671	4,919,105

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 Company acts as an investment holding company. The principal activities of the Group are the operation and management of a network of department stores in the People's Republic of China ("PRC").

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 (the "Interim Financial Statements") have been prepared in accordance with the International Accounting Standards 34 "Interim Financial Reporting" ("IAS 34") promulgated by the International Accounting Standards Board.

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, International Financial Reporting Standards 15 "Revenue from Contracts with Customers" ("IFRS 15") and has elected to apply the modified retrospective approach and applied the adoption only to contracts not completed as of the date of adoption, with no restatement of comparative periods, and a cumulative-effect adjustment to retained earnings recognised as of the date of adoption. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretation apply for the first time in 2018, but do not have significant impact on the Interim Financial Information of the Group.

IFRS 15 supersedes International Accounting Standards 11 "Construction Contracts", International Accounting Standards 18 "Revenue and related Interpretations" and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

(i) Presentation of contract liability

The Group has changed the presentation of certain amounts in the unaudited interim condensed consolidated financial statement of financial position to reflect terminology of IFRS 15:

i) Contract liabilities in relation to prepayment from customers were previously included in "Customers' deposits, other payables and accruals";
ii) Contract liabilities in relation to loyalty points programme were previously included in "Customers' deposits, other payables and accruals".

Condensed consolidated statement of financial position (extract):

		As at 1 January 2018	
	As previously stated	**Effects of the adoption of IFRS 15**	**Restated**
	RMB'000	RMB'000	RMB'000
Customers' deposits, other payables and accruals	1,564,022	(771,447)	792,575
Contract liabilities	-	771,447	771,447

		As at 30 June 2018	
	Results without the adoption of IFRS15	**Effects of the adoption of IFRS 15**	**Results as reported**
	RMB'000	RMB'000	RMB'000
Customers' deposits, other payables and accruals	1,329,626	(719,428)	610,198
Contract liabilities	-	719,428	719,428

(ii) Loyalty points programme

Prior to adoption of IFRS 15, the loyalty programme offered by the Group in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty programme gives rise to a separate performance obligation because it generally provides a material right to the customer. Under IFRS 15, the Group allocates a portion of the transaction price to the loyalty programme based on relative standalone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programme should be no significant different compared to the previous accounting policy. However, the deferred revenue related to this loyalty points programme was reclassified to Contract liabilities as described as note 2 (i) above.

(iii) Presentation and disclosure requirements

As required for the Interim Financial Information, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

3. GROSS SALES PROCEEDS

	For the six months ended 30 June	
	2018	**2017**
	Unaudited	Unaudited
	RMB'000	RMB'000
Sales of goods – direct sales	1,116,796	998,870
Gross revenue from concessionaire sales	5,150,358	5,557,085
Total merchandise sales	6,267,154	6,555,955
Others (including consultancy and management service fees, gross rental income and other operating revenues)	438,585	457,532
Total gross sales proceeds	6,705,739	7,013,487
Total gross sales proceeds (inclusive of value-added tax)	7,752,517	8,127,999

4. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

	For the six months ended 30 June	
	2018	**2017**
	Unaudited	Unaudited
	RMB'000	RMB'000
Sales of goods – direct sales	1,116,796	998,870
Commissions from concessionaire sales	839,424	912,974
Gross rental income	198,245	204,685
Consultancy and management service fees	3,993	5,136
Revenues	2,158,458	2,121,665

Revenues are recognised to the extent that it is probable that the economic benefits of a transaction will flow to the Group. The Group's revenue for the six-months ended 30 June 2018 relating to contract with customers includes the sales of goods-direct sales, commission from concessionaire sales and consultancy and management service fees.

Other operating revenues

		For the six months ended 30 June	
		2018	**2017**
		Unaudited	Unaudited
	Note	RMB'000	RMB'000
Promotion income		39,942	37,921
Administration and credit card handling fees		68,174	72,341
Government grants	(i)	4,478	3,047
Other income		123,753	134,402
		236,347	247,711

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.

Segment information

For management purposes, the Group has a single operating and reportable segment - the operation and management of department store 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.

5. PROFIT FROM OPERATIONS

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

	For the six months ended 30 June	
	2018	**2017**
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of inventories recognised as expenses	952,142	857,826
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	256,295	270,495
Pension scheme contributions	32,208	35,047
Social welfare and other costs	46,004	49,592
	334,507	355,134
Directors' remuneration	5,230	4,746
	339,737	359,880
Depreciation and amortisation	125,852	156,290
(Reversal)/ Impairment of inventories	(2,531)	3,740
Reversal of impairment of other receivables	(3,658)	(1,367)
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	390,896	417,576
Contingent lease payments *	63,745	68,033
	454,641	485,609
Loss on disposal of items of property, plant and equipment	10,256	18,939
Auditors' remuneration	614	588
Gross rental income in respect of investment properties	(2,857)	(2,624)
Sub-letting of properties:		
Minimum lease payments #	(140,792)	(142,278)
Contingent lease payments *	(54,596)	(59,783)
	(195,388)	(202,061)
Total gross rental income	(198,245)	(204,685)
Direct operating expenses arising on rental-earning investment properties	770	535

\# 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 COSTS, NET

	For the six months ended 30 June	
	2018	**2017**
	Unaudited	Unaudited
	RMB'000	RMB'000
Finance income:		
Bank interest income	58,242	66,004
Gain on redemption of financial assets at fair value through profit or loss	9,068	-
Change of fair value of financial assets at fair value through profit or loss	6,325	-
	73,635	66,004
Finance costs		
Bond	(33,270)	(78,155)
Interest-bearing bank loans	(64,872)	(8,095)
	(97,142)	(86,250)
Finance costs, net	(23,507)	(20,246)

7. INCOME TAX EXPENSE

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 operate.

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

	For the six months ended 30 June	
	2018	**2017**
	Unaudited	Unaudited
	RMB'000	RMB'000
Current income tax	104,135	59,604
Deferred income tax	(23,222)	(5,353)
	80,913	54,251

8. EARNINGS / (LOSS) PER SHARE

The calculation of basic earnings per share for 1H2018 is based on the net profit attributable to equity shareholders of the Company for that period of approximately RMB17.7 million and the weighted average number of 2,634,532,250 shares in issue during the period.

The calculation of basic loss per share for 1H2017 is based on the net loss attributable to equity shareholders of the Company for that period of approximately RMB4.5 million and the weighted average number of 2,634,532,250 shares in issue during the period.

The calculation of the diluted earnings/loss per share amount is based on the profit/loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period, as used in the basic earnings/loss per share calculation, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2018 and 2017

9. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 1H2018 (1H2017: Nil).

10. TRADE RECEIVABLES

Trade receivables mainly arise from purchases by customers 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 as at the end of the interim financial reporting period, based on the payment due date, is as follows:

	30 June 2018	31 December 2017
	Unaudited	Audited
	RMB'000	RMB'000
Within 3 months	82,326	136,149
4 to 12 months	409	308
Over 1 year	8	39
	82,743	136,496

Included in the balance are trade receivables from a joint venture of RMB150,000 (31 December 2017: RMB350,000) and an associate of RMB350,000 (31 December 2017: RMB350,000) which are attributable to the 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:

	30 June 2018	31 December 2017
	Unaudited	Audited
	RMB'000	RMB'000
Within 3 months	1,072,318	1,409,870
4 to 12 months	44,576	46,059
Over 1 year	14,778	17,298
	1,131,672	1,473,227

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Board is pleased to report that the Group has recorded robust growth in the first six months of 2018, as a result of the significant progress of its continued transformation strategy and initiatives. These major initiatives, including diversification of retail formats, operational optimization and cost control efforts, have continued to contribute to the growth of the Group. The evolving efforts in executing transformation strategies further reinforce the Group's position as a leading lifestyle retailer in China.

2018 half year financial results

The retail market of China gradually recovers. The Chinese economy recorded a steady Gross Domestic Product ("GDP") growth rate of 6.8%, a slight increase against the national target of 6.7% in the first half of 2018. Chinese consumption sentiment was evident by the upward trend of household consumption expenditure and retail sales of consumer goods of China.

During the first six months of this year, the Group recorded total gross sales proceeds ("GSP") of RMB7,752.5 million inclusive of value added tax, a decline of 4.6% compared to the same period last year, which was mainly due to store closures in 2017. Same store sales ("SSS") in 1H2018 slightly decreased by 1.5%. The SSS represented the results of Anshan Parkson which was closed for 24 days in April 2018 due to a fire hazard. Excluding the impact, SSS in 1H2018 decreased marginally by 0.7%. The Group's overall gross profit margin remained resilient at 21.5% compared to 21.6% recorded in 1H2017. Profit from operations was RMB126.1 million in 1H2018, an increase of 78.7% from the same period last year.

Transformation Gains Momentum

The retail industry is rapidly accelerating with the emergence of "New Retail" that demands personalized customer experience, lifestyle-centric products and services. E-commerce giants aggressively improve their overall user experience and offline-to-online (O2O) strategies to increase their market share. As a lifestyle retailer with three decades of retail experience in Asia, the Group looks to steadily transform its business in tandem with dynamic customer expectations, the PRC government policies and the macroeconomic environment.

Following the solid progress of our new retail initiatives, the Group has further developed its diversified retail formats and advanced its key business units to becoming standalone businesses and brands. One of the key units is the cosmetic segment which remains a significant and resilient growth segment in Parkson's offering. The specialty standalone concept store "Parkson Beauty" that was first launched in Changsha International Finance Centre in May 2018 received resounding responses from Chinese consumers. The second "Parkson Beauty" concept store will be launched in Qingdao in the second half of this year. More "Parkson Beauty" concept stores will be launched in future to capitalize on the continuous growth of the cosmetic segment. Furthermore, the latest offering in Parkson's beauty segment, PLAY UP, the first beauty collection brand of Parkson, that gathers more than 70 brands and 1,300 products, has officially opened in Parkson Beauty in June 2018. PLAY UP represents Parkson's progressive efforts in diversifying the products and services offered in its beauty segment. Lifestyle elements have become increasingly important to its target customers. The Group will continue to explore the feasibility to grow more key business units into standalone businesses.

As Parkson transforms into a lifestyle concept retailer, Parkson Newcore Citymalls in Shanghai and Nanchang recorded strong sales growth in the first half of 2018. With the outstanding performance of Citymall concept, two more Citymall concept stores will be opened in Chengdu to expand the market share. To attract young millennials and customers who seek quality lifestyle choices, the Group will move forward to diversify its brand portfolio and enhance lifestyle elements in the merchandise selection.

Another key business unit is food and beverage (F&B) which generates a stable revenue stream for the Group. Hogan Bakery continued to record strong growth and receive favorable feedback from customers, which manifests encouraging growth potential. The Group plans to open more Hogan Bakery outlets in other provinces of China in the second half of 2018.

Over the years, Parkson has demonstrated its capability in retail management. The Group was invited to manage a property in Nanning in 2017, which showed we have started moving into a new business segment of "managing stores". Our development in this relatively new business segment constitutes a part of the transformation initiatives, which aligns with the asset-light model of the Group and introduces more collaboration opportunities with a wide range of commercial property developers in China.

Optimization with Omni-channel Marketing and Operation

In light of prevailing e-commerce market trends of leveraging on overall user experience enhancement and O2O strategies, the Group will sail through market headwind posed by e-commerce giants with our strategic development of O2O retail marketing efforts. With a strong presence of physical retail stores, the Group has been capitalizing on its online channels to drive visitor traffic at the stores. As of June 2018, Parkson's official WeChat account has 2.7 million followers. Furthermore, our enhanced online and mobile shopping platform Parkson Plaza ("百盛商城") helped us build an omni-channel community.

To enhance the O2O customer experience, the Group will continue to work closely with its strategic partner, Secco, in leveraging on the big data analytics and integration of membership systems to create a lifestyle ecosystem that synchronizes online and offline shopping experiences for consumers.

To maximize its operational efficiency and better utilize resources, the Group has closed a store in 1H2018.

Steady Evolution

Established in China over two decades ago, Parkson truly understands the demands of Chinese consumers and is committed to bringing the best to the retail market in China. Today, in the face of a more challenging, yet booming consumption market environment, the Group continues to steadily evolve and seize market opportunities. Parkson strongly believes that its transformation strategy will lead the Group to a positive future and create long term value to its shareholders.

The Board and executive management team would like to take this opportunity to thank all employees, customers, shareholders, suppliers and business partners for their dedication and support.

Financial Review

Total gross sales proceeds and operating revenues

During the period under review, the Group generated total GSP of RMB7,752.5 million (inclusive of value-added tax) or RMB6,705.7 million (net of value-added tax). Total GSP decline of 4.6% was mainly due to store closures in 2017. SSS slightly decreased by 1.5% in 1H2018. Excluding the impact of 24 days store closure in April 2018 of Anshan Parkson due to a fire hazard, SSS in 1H2018 decreased marginally by 0.7%.

The Group generated total merchandise sales of approximately RMB6,267.2 million. Concessionaire sales contributed approximately 82.2% to total merchandise sales and direct sales contributed the balance of 17.8%. Cosmetics & Accessories category contributed approximately 47.7% of the total merchandise sales, Fashion & Apparel category contributed approximately 43.6% to sales; remainder of merchandise sales were contributed by Household & Electrical category and Groceries and Perishables category with contribution of approximately 2.9% and 5.8% respectively. The Group’s merchandise gross margin (a combination of concessionaire commission rate and the direct sales margin) decreased by 0.1% to 16.0% in 1H2018 compared to the same period last year due to change in merchandise mix and fierce promotional competition.

Total operating revenues of the Group increased by RMB25.4 million or 1.1% to RMB2,394.8 million mainly contributed by the increase in direct sales of RMB117.9 million which was due to the strong sales performance of Cosmetics & Accessories category. The increase is partially offset by the decrease in commissions from concessionaire sales, rental income and other operating revenues due to store closures impact.

Operating Expenses

Purchase of goods and changes in inventories

The purchase of goods and changes in inventories refer to the cost of sales for the direct sales. In line with the increase in direct sales, the cost of sales rose to RMB952.1 million, an increase of RMB94.3 million or 11.0% as compared to 1H2017.

Staff costs

Staff costs decreased by RMB20.1 million or 5.6% to RMB339.7 million in 1H2018 mainly due to store closures in 2017. The impact of decrease was partially offset by i) the increase in staff costs contributed by new business like Parkson Beauty and PLAY UP; and ii) salary adjustment in line with inflation. On a same store basis, staff costs slightly increased by 0.2%.

As a percentage to GSP, the staff cost ratio remained unchanged as 1H2017 at 5.1%.

Depreciation and amortisation

Depreciation and amortisation decreased by RMB30.4 million or 19.5% to RMB125.9 million. The decrease was primarily attributable to savings from stores closed and renovation from old stores that has been fully depreciated in 1H2018. On a same store basis, depreciation expense decreased by 13.5%, 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 amortisation cost ratio decreased to 1.9% from 2.2% recorded in 1H2017.

Rental expenses

Rental expenses of RMB454.6 million posted a decrease of RMB31.0 million or 6.4% compared to 1H2017. The decrease was mainly due to i) reversal of straight-line adjustments due to the acquisition of a leased property in Wuxi; ii) adjustment of lease area and lease term renegotiation of some stores within the Group; and iii) saving from store closures in 2017. On a same store basis, rental expenses decreased by 2.7%.

As a percentage to GSP, rental expenses ratio decreased to 6.8% from 6.9% recorded in 1H2017.

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 by RMB42.9 million or 9.8% to RMB396.4 million as a result of management's cost rationalization efforts. On a same store basis, other operating expense decreased by 1.3% during the period.

As a percentage to GSP, the other operating expenses ratio decreased to 5.9% from 6.3% recorded in 1H2017.

Profit from operations

The Group posted profit from operation of RMB126.1 million in 1H2018, an increase of RMB55.5 million or 78.7% compared to RMB70.6 million recorded in 1H2017.

As a percentage to GSP, the profit from operations margin increased from 1.0% last period to 1.9% in 1H2018.

Finance costs, net

The Group incurred net finance costs of RMB23.5 million in 1H2018 which represented an increase of RMB3.3 million compared to 1H2017. Increase in net finance costs was mainly due to the rise of bank loan interest rates.

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 almost remained unchanged as 1H2017 at RMB8.5 million.

Share of profit /(loss) from associates

This is the share of results from the Group's associated companies. The Group generated the share of profit of RMB3.0 million, a turnaround increase of RMB7.4 million compared to the share of loss of RMB4.4 million recorded in 1H2017, which was mainly due to the profit generated by Parkson Newcore.

Profit before income tax ("PBT")

Due to the aforesaid reasons, the Group has recorded a PBT of RMB114.1 million which represented an increase of RMB59.7 million or 109.5% compared to 1H2017.

As a percentage to GSP, PBT ratio increased from 0.8% to 1.7%.

Income tax expense

The Group's income tax expenses increased by RMB26.7 million to RMB80.9 million mainly due to the increase of profit from operations.

Profit for the period

The Group recorded a net profit of RMB33.2 million for 1H2018, an increase of RMB33.0 million compared to 1H2017.

Profit/(Loss) attributable to owners of the parent

Profit attributable to owners of the parent was RMB17.7 million in 1H2018 as compared to the loss of RMB4.5 million in 1H2017.

Liquidity and financial resources

As at 30 June 2018, the cash and cash equivalents and deposits with licensed banks of the Group (aggregate of financial assets at fair value through profit or loss, investments in principal guaranteed deposits, time deposits and cash and bank equivalents deposited with licensed banks) stood at RMB4,639.6 million, representing a reduction of RMB878.1 million or 15.9% from the balance of RMB5,517.7 million recorded as at the end of December 2017. The decrease was mainly due to (i) net cash outflow from operating activities amounting to RMB202.1 million; (ii) net cash outflow from investing activities amounting to RMB320.5 million; and (iii) net cash outflow from financing activities amounting to RMB355.5 million.

Total debt to total asset ratio of the Group was 31.1% as at 30 June 2018.

Current assets and net assets

The Group's current assets as at 30 June 2018 were approximately RMB4,294.1 million. Net assets of the Group decreased by 0.1% to RMB4,912.7 million as at 30 June 2018.

Information on the Financial Products

Investment in principal guaranteed deposits refer to the principal preservation type wealth management products subscribed by the Group from licensed banks operate in China. As at 30 June 2018, the balance of these products was RMB1,300.3 million, accounting for approximately 10.7% of the total assets of the Group.

Financial assets at fair value through profit or loss refer to the non-principal preservation type wealth management products subscribed by the Group from licensed banks operate in China. As at 30 June 2018, the fair value of these products was RMB615.4 million, accounting for approximately 5.0% of the total assets of the Group.

Pledge of assets

As at 30 June 2018, the Group has onshore pledged deposits of RMB2,028.6 million, pledged buildings, investment properties and prepaid land lease payment with a net carrying amount of approximately RMB1,921.7 million, RMB3.1 million and RMB389.2 million respectively to secure general bank loans. Other than the aforesaid, no other assets are pledged to any bank or lender.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the six months ended 30 June 2018, 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 Board, 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 six months ended 30 June 2018.

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 six months ended 30 June 2018.

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 interim results of the six months ended 30 June 2018. The Committee comprises the non-executive director and three independent non-executive directors of the Company.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND OF THE COMPANY

This announcement will be published on the websites of the Stock Exchange and of the Company. The interim report for the six months ended 30 June 2018 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on 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 August 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 Desmond and Mr. Yau Ming Kim, Robert.