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

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

Total operating revenues of the Group increased by RMB170.6 million or 3.6% to RMB4,847.8 million in 2018.

Same Store Sales (“SSS”) decreased by 2.4% in 2018.

Total Gross Sales Proceeds (“GSP”) decreased by 4.8% to RMB15,194.6 million due to decrease in store numbers.

Operating profit for 2018 was RMB169.9 million, an increase of RMB86.2 million or 103.1% compared to RMB83.7 million recorded in 2017.

Loss attributable to owners of the parent was RMB79.3 million in 2018.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 2018 with comparative figures for the year 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the year ended 31 December 2018 *RMB'000*	2017 *RMB'000*
Revenues		4,372,462	4,205,736
Other operating revenues		475,346	471,507
Total operating revenues	4	4,847,808	4,677,243
Operating expenses			
Purchases of goods and changes in inventories		(1,979,633)	(1,724,748)
Staff costs		(684,216)	(687,257)
Depreciation and amortisation		(265,408)	(315,818)
Rental expenses		(937,327)	(945,403)
Other operating expenses		(811,292)	(920,354)
Total operating expenses		(4,677,876)	(4,593,580)
Profit from operations	5	169,932	83,663
Finance income	6	139,900	149,776
Finance costs	6	(208,056)	(172,984)
Share of profit/(loss) of :			
A joint venture		16,187	18,539
Associates		7,874	(4,274)
One-off items:			
Impairment of goodwill		-	(820)
Impairment of investment in associates		-	(17,582)
Provision for litigation settlement		-	(100,000)
Profit /(Loss) before income tax		125,837	(43,682)
Income tax expenses	7	(180,449)	(90,071)
Loss for the year		(54,612)	(133,753)
(Loss)/Profit attributable to:			
Owners of the parent		(79,283)	(135,952)
Non-controlling interests		24,671	2,199
		(54,612)	(133,753)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		(RMB0.030)	(RMB0.052)
Diluted		(RMB0.030)	(RMB0.052)
DIVIDEND PER SHARE	9		
Interim		RMB0.03	-
Proposed final		-	-
		RMB0.03	-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Loss for the year	(54,612)	(133,753)
Other comprehensive (loss)/income		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation	(174,096)	241,841
Other comprehensive (loss)/income for the year, net of tax	(174,096)	241,841
Total comprehensive (loss)/income for the year	(228,708)	108,088
(Loss)/profit attributable to:		
Owners of the parent	(253,379)	105,889
Non-controlling interests	24,671	2,199
	(228,708)	108,088

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December **2018** *RMB'000*	**2017** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		3,894,419	3,797,592
Investment properties		30,293	33,634
Prepaid land lease payments		394,497	407,810
Intangible assets		1,797,675	1,759,987
Investment in a joint venture		28,517	30,260
Investment in associates		34,792	27,200
Trade receivables	10	91,596	-
Other assets		132,657	211,023
Time deposit		1,433,142	-
Deferred tax assets		186,576	200,102
Total non-current assets		8,024,164	6,467,608
CURRENT ASSETS			
Inventories		350,083	324,694
Trade receivables	10	290,183	136,496
Prepayments, other receivables and other assets		490,462	528,895
Investment in principal guaranteed deposits		664,780	3,160,460
Time deposits		683,863	26,065
Financial assets at fair value through profit or loss		544,593	1,604,430
Cash and cash equivalents		1,544,354	726,724
Total current assets		4,568,318	6,507,764
CURRENT LIABILITIES			
Trade payables	11	(1,354,766)	(1,473,227)
Customers' deposits, other payables and accruals		(719,515)	(1,564,022)
Contract liabilities		(782,389)	-
Interest-bearing bank loans		(321,646)	(693,177)
Bonds		-	(3,162,523)
Tax payable		(59,991)	(42,497)
Total current liabilities		(3,238,307)	(6,935,446)
NET CURRENTASSETS/ (LIABILITIES)		1,330,011	(427,682)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,354,175	6,039,926

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(3,721,241)	(95,566)
Long term payables	(727,970)	(704,567)
Deferred tax liabilities	(280,114)	(320,688)
Total non-current liabilities	(4,729,325)	(1,120,821)
NET ASSETS	4,624,850	4,919,105
EQUITY		
Equity attributable to owners of the parent		
Issued capital	55,477	55,477
Reserves	4,454,462	4,818,486
	4,509,939	4,873,963
Non-controlling interests	114,911	45,142
TOTAL EQUITY	4,624,850	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, 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 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 2018 (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

The Group has adopted a number of new and revised IFRSs for the first time in the current year's financial statements. Other than as further explained below regarding the impact of International Financial Reporting Standards 15 "Revenue from Contracts with Customers" ("IFRS 15"), the adoption of the new and revised IFRSs has had no significant financial effect on the Financial Statements.

The Group applies, for the first time, 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.

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 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".

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 31 December 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	1,501,904	(782,389)	719,515
Contract liabilities	-	782,389	782,389

(ii) Loyalty points programme

Prior to adoption of IFRS 15, the loyalty points programme offered by the Group in the allocation of a portion of the transaction price to the loyalty points 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 points 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 points programme based on relative standalone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty points programme was 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.

3. GROSS SALES PROCEEDS

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of goods – direct sales	2,323,660	2,013,822
Gross revenue from concessionaire sales	9,961,302	10,869,291
Total merchandise sales	12,284,962	12,883,113
Others (including consultancy and management service fees, credit service revenues, rental income and other operating revenues)	900,021	880,521
Total gross sales proceeds	13,184,983	13,763,634
Total gross sales proceeds (inclusive of value-added tax)	15,194,610	15,953,763

4. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenues

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of goods – direct sales	2,323,660	2,013,822
Commissions from concessionaire sales	1,624,127	1,782,900
Consultancy and management service fees	9,011	9,344
Revenue from contracts with customers	3,956,798	3,806,066
Credit Service income	9,641	-
Rental income	406,023	399,670
Revenues	4,372,462	4,205,736

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 credit service income.

Other operating revenues

		For the year ended 31 December	
		2018	**2017**
	Note	RMB’000	RMB’000
Promotion income		80,760	80,006
Administration and credit card handling fees		140,244	141,144
Government grants	(i)	8,141	4,907
Other incomes		246,201	245,450
		475,346	471,507

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, except for the consumer financing business carried out under Parkson Credit mainly in Malaysia, the Group has a single operating and reportable segment– the operation and management of department stores in the PRC. Except for credit services, revenues from external customers are generated in the PRC and all significant operating assets of the Group are located in the PRC.

As consumer financing business does not have a material impact on the Group’s results based on a measure of revenues, net profit and total assets, respectively. For management purpose, there is no need to treat it as a separate operating and reportable segment to disclose.

5. PROFIT/(LOSS) FROM OPERATIONS

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

	For the year ended 31 December	
	2018	**2017**
	RMB'000	RMB'000
Cost of inventories recognised as expenses	1,979,633	1,724,748
Staff costs excluding directors' and chief executive's remuneration:		
Wages, salaries and bonuses	502,328	512,338
Pension scheme contributions	66,529	69,415
Social welfare and other costs	105,530	96,162
Directors' remuneration	9,829	9,342
	684,216	687,257
Depreciation and amortisation	265,408	315,818
Reversal of impairment of other receivables	(6,071)	(584)
Impairment of trade receivables	2,439	-
Impairment of property, plant and equipment	7,843	-
Impairment of intangible assets other than goodwill	-	37,933
Impairment of goodwill	-	820
Impairment of investment in associates	-	17,582
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	793,572	811,590
Contingent lease payments *	143,755	133,813
	937,327	945,403
Loss on disposal of items of property, plant and equipment	17,363	26,376
Provision for litigation settlement	-	100,000
Auditors' remuneration	3,888	3,930
Gross rental income in respect of investment properties	(5,213)	(5,361)
Sub-letting of properties:		
Minimum lease payments #	(299,945)	(306,362)
Contingent lease payments *	(100,865)	(87,947)
	(400,810)	(394,309)
Total gross rental income	(406,023)	(399,670)
Direct operating expenses arising on rental-earning investment properties	1,005	1,074

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 2018 RMB'000	2017 RMB'000
Finance income:		
Bank interest income	114,713	122,419
Gain on redemption of financial assets at fair value through profit or loss	19,239	18,187
Change of fair value of financial assets at fair value through profit or loss	5,948	9,170
	139,900	149,776
Finance costs:		
Bonds	(32,270)	(154,900)
Interest-bearing bank loans	(175,786)	(18,084)
	(208,056)	(172,984)
Finance costs, net	(68,156)	(23,208)

7. INCOME TAX

The Group is subject to income tax on 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 2018 RMB'000	2017 RMB'000
Current income tax	207,497	104,101
Deferred income tax	(27,048)	(14,030)
	180,449	90,071

8. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2018 was based on the net loss attributable to ordinary equity holders of the parent for the year of approximately RMB79,283,000 and the weighted average number of 2,634,532,250 shares in issue during the year.

The calculation of basic loss per share for the year ended 31 December 2017 was based on the net loss attributable to ordinary equity holders of the parent 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 diluted earnings per share amounts is based on the net loss 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.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

9. DIVIDEND

	For the year ended 31 December	
	2018	**2017**
	RMB'000	RMB'000
Interim –RMB0.03 (2017: nil) per ordinary share	79,036	-
Proposed final – nil (2017: nil) per ordinary share	-	-
	79,036	-

The Board does not recommend the payment of a final dividend for 2018 (2017: nil). The Board has approved and paid an interim dividend of RMB0.03 (2017: nil) in cash per share on 6 December 2018.

10. TRADE RECEIVABLES

Trade receivables mainly arise from:

a) 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.
b) financing receivables relating to the provision of financing facilities based on Islamic principles.

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.

	As at 31 December	
	2018	**2017**
	RMB'000	RMB'000
Non-current	91,596	-
Current	297,358	136,496
Allowance for impairment loss	(7,175)	-
	290,183	136,496
Total	381,779	136,496

An aged analysis of the trade receivables is as follows:

	As at 31 December	
	2018	**2017**
	RMB'000	RMB'000
Within 1 year	290,183	136,457
1 to 2 years	68,778	35
Over 2 years	22,818	4
Total	381,779	136,496

The movement in the loss allowance for impairment of trade receivables:

	As at 31 December 2018
	RMB'000
At beginning of the year	-
Acquisition of a subsidiary	7,732
Impairment loss	2,439
Write off	(2,996)
At end of the year	7,175

Included in the balance are trade receivables from a joint venture of RMB195,000 (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:

	As at 31 December	
	2018	**2017**
	RMB'000	RMB'000
Within 3 months	1,281,771	1,409,870
4 to 12 months	44,346	46,059
Over 1 year	28,649	17,298
	1,354,766	1,473,227

12. CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company, which is scheduled on Thursday, 23 May 2019 ("AGM"), the register of members of the Company will be closed from Friday, 17 May 2019 to Thursday, 23 May 2019, 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, 16 May 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The retail market in China has seen gradual slowdown amid macroeconomic headwinds and the US-China trade tensions throughout 2018. The retail sales growth in 2018 was 9.0%, down from 10.2% in 2017, marking a downward pressure on retail sales growth. Economic uncertainties have played a role in curbing Chinese consumption sentiment and demand. Nevertheless, it is expected that the trend of consumption upgrade will continue to prevail in 2019. Consumption is expected to remain the largest contributor to China's economic growth in 2019. China's consumer market is expected to continue its steady development and maintain a stable and positive outlook regardless of the negative macroeconomic and geopolitical factors.

At Parkson, we continue to focus on improvement in our core businesses operation, seize the opportunities brought about by consumption upgrades, continue to transform, strengthen the expansion of new businesses and build resilience in times of macroeconomic uncertainties.

New retail dominates retail market transformations

"New retail" formats continued to advance the industry transformation in China in the past year, backed by social networking, mobile apps and mobile payment. Technology and innovation in the Chinese retail sector set the undertone of its transformation.

The prevalence of "new retail" and the emergence of consumer demand seeking personalized customer experience, lifestyle-centric products and services continue to bring ample opportunities to the Chinese retail industry. With over two decades of retail experience in the country, we have in-depth understanding of consumer demand and expectations. We understand that Chinese consumers are increasingly quality focused when it comes to lifestyle and entertainment consumption. This phenomenon is particularly noticeable among the younger generation.

During the year under review, total operating revenues of the Group increased by RMB170.6 million or 3.6% to RMB4,847.8 million. The Group recorded GSP of RMB15,194.6 million inclusive of value added tax, a decline of 4.8% compared with last year, which was mainly due to the impact of store closures. SSS in 2018 decreased by 2.4%.

Diversified retail formats driving resilience and growth

In 2018, we continued to focus on the execution of our transformation strategy from traditional department stores to diversified retail formats and enhanced product offerings to reinforce our position as a leading lifestyle retailer in China. In particular, we have seen success in the segment of beauty which continued to deliver robust performance. In light of the resilience proven in the performance of the beauty segment, we have developed a specialty standalone store concept, namely "Parkson Beauty" to capitalize on the opportunities. For instance, the first "Parkson Beauty" in Changsha International Finance Centre officially launched in May 2018 was well received by customers. Following its success, the Group transformed a department store into the second "Parkson Beauty" store in Qingdao, which was opened at the end of September 2018.

Apart from the standalone concept stores, we have introduced the latest offering in our beauty segment, PLAYUP located at Changsha IFS. PLAYUP gathers over 110 brands and 1,500 products. PLAYUP stands for the solid efforts in offering diversified products and services in the beauty segment for our customers.

Another key segment of Parkson is food & beverage (F&B). To allow Parkson evolves as a leading lifestyle concept retailer in China, our key F&B brand, Hogan Bakery, will continue to expand its footprint with ten new stores to be opened in prime locations in Shanghai. The production process for the brand will be streamlined by a centralized kitchen system and same-day delivery of bakery to stores for sale. The streamlined production will reduce capital expenditure, rental burden, and improve our product quality with standardization.

Furthermore, we have been tapping into a versatile range of product offerings and progress with plans to open four new stores in China for another F&B restaurant brand "鸡荟" (JI HUI) in the coming year. Parkson is committed to offering the best possible dining experience to customers while enjoying shopping. We provide our customers with enhanced shopping experience by integrating our retail and F&B businesses.

In view of the demanding on premium local and imported products, we will upgrade three of our existing supermarkets located in department stores to gourmet supermarkets. Our team handpicks a wide selection of premium products for our discerning middle class customers, making the Gourmet supermarkets a sought-after place to shop.

To maximize our operational network, we plan to open four new department stores with a focus on fashion and beauty brands targeting our key customers, millennials.

During the year under review, to better utilize resources, we have closed two underperforming stores. As of 31 December 2018, the Group operates and manages 43 Parkson stores (including concept stores "Parkson Beauty"), 2 Parkson Newcore City Malls and 1 Lion Mall in over 30 cities across China.

Parkson has proved its capability in retail management and established collaboration with commercial property developers in China in department store management. During the year under review, we started a new business segment of department store management, which aligns with our asset-light model and offers us a steadily growing revenue stream.

Solid omni-channel marketing offering optimized customer experience

Coupled with accelerating technology and innovation in the retail landscape of China, we have been capitalizing on its online and social media channels including Parkson's official WeChat account and Parkson Plaza, our mobile shopping app to build an omni-channel community online and drive visitor traffic at our stores. To better serve our target customers, we have dedicated marketing efforts on these platforms to launch interactive marketing campaigns and festive promotions. The wide, diverse range of brands and products was favorable for us to develop promotion campaigns for our customers, achieving customer retention and accumulating customer loyalty.

Outlook

Looking ahead, we stay confident in the retail industry in China, despite a challenging macroeconomic environment and market uncertainties. We believe our transformation strategy focusing on diversified retail formats, enhanced brand and product offerings, and omni-channel marketing development will achieve solid progress in building resilience and steady growth in the face of market headwinds.

Established in China over two decades ago, Parkson is committed to bringing the best to the retail market in China and creating long term value to our shareholders. To further enhance our success with the standalone store concept, we will progress with developing our beauty segment, a key growth driver into more standalone stores under the "Parkson Beauty" brand. Moving forward, we will also focus on growing the F&B segment, another key business unit, including expanding the business of Hogan Bakery by opening more stores. We will continue to evolve and capture market opportunities with our diversified retail formats. Furthermore, we will go on with exploring optimal locations to expand the gourmet supermarket business and upgrade existing supermarkets this year.

We look forward to bringing more quality products and services in the pipeline to our customers in the coming year. Our continuous effort in establishing a powerful online community of our customers will be further enhanced through social media networks, our VIP programme and personalized customer service.

We are confident that our transformation strategy will pave the way for the company to a booming future. We stay committed to the retail market in China and will continue to grow the business with the support of our stakeholders. We would like to take this opportunity to express our gratitude to our employees, customers, shareholders, suppliers and business partners for their unwavering support throughout the years. We look forward to working with you closely in the years to come.

Financial Review

GSP and operating revenues

During the 2018, GSP (consists of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees, credit service income and other operating revenues) decreased by 4.8% Year On Year ("YOY") to RMB15,194.6 million (inclusive of value-added tax), mainly due to store closures in 2017 and 2018 as well as the decline in SSS amid macroeconomic headwinds. SSS decreased by 2.4% in 2018.

Merchandise sales totaled to approximately RMB12,285.0 million (net of value-added tax) in 2018. Concessionaire sales continued to be the key sales driver and had contributed approximately 81.1% of merchandise sales in 2018. The balance of 18.9% came from direct sales. The Cosmetics & Accessories category became the biggest contributor in the merchandise mix instead of the previous leader, Fashion & Apparel category. The Cosmetics & Accessories category contributed approximately 48.0% of the total merchandise sales, the Fashion & Apparel category contributed approximately 43.3%, the Household & Electrical category contributed approximately 3.0% and the balance of approximately 5.7% came from the Groceries & Perishables category.

Group's merchandise gross margin (a combination of concessionaire commission rate and the direct sales margin) remained stable as compared to 2017, slightly decreased by 0.1% to 16.0%.

Total operating revenues of the Group increased by RMB170.6 million or 3.6% to RMB4,847.8 million in 2018 mainly due to i) the increase in direct sales of RMB309.8 million which was contributed by the strong sales performance of the Cosmetics & Accessories category; ii) inclusion of the revenue of RMB9.6 million in credit services provided by Parkson Credit Sdn Bhd which was acquired in October; and iii) the increase in rental income and other operating income of RMB10.2 million as a result of the Group's transformation in allocating more operating area for complementary services. The increase was partially offset by the decrease in commissions from concessionaire sales due to store closures impact and the operating area adjustment mentioned above.

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 2018 increased by RMB254.9 million to RMB1,979.6 million as compared to 2017.

Staff costs

Staff costs decreased marginally by 0.4% YOY to RMB684.2 million mainly due to store closures in 2017 and 2018. The impact of decrease was partially offset by the increase in staff costs contributed by the salary adjustment in line with general wage rise in China and new business like Parkson credit and Parkson beauty. On a same store basis, staff costs increased by 3.5%.

As a percentage to GSP, the staff cost ratio increased from 5.0% to 5.2%.

Depreciation and Amortization

Depreciation and amortization decreased by 16.0% YOY to RMB265.4 million. The decrease was primarily attributable to savings from stores closed and renovation from old stores that has been fully depreciated in 2018. On a same store basis, the depreciation and amortization costs decreased by 13.7%, mainly due to the fully depreciated assets mentioned above. The Group 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 2.3% to 2.0%.

Rental Expenses

Rental expenses decreased by 0.9% to RMB937.3 million. The decrease is mainly due to i) reversal of straight-line adjustments of RMB24.7 million and savings from cease to pay rental expense of RMB10.0 million after the acquisition of a leased property in Wuxi; ii) savings from store closures in 2017; iii) adjustment of lease area and lease term renegotiation of some stores within the Group.

The impact of decrease was partially offset by the reversal of straight-line adjustments triggered by store closures and lease area adjustment of RMB67.1 million in 2017. On a same store basis, rental expenses decreased by 1.4%.

As a percentage to GSP, the rental expenses ratio increased from 6.9% to 7.1%.

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 RMB109.1 million or 11.9% to RMB811.3 million as a result of store closures and management's effort to rationalize cost within the Group. On a same store basis, other operating expenses decreased by 1.6%.

As a percentage to GSP, other operating expenses ratio decreased from 6.7% to 6.2%.

Profit from Operations

The Group generated a profit from operations of RMB169.9 million for 2018, an increase of RMB86.2 million or 103.1% compared to RMB83.7 million recorded in 2017.

As a percentage to GSP, the profit from operations margin increased from 0.6% last year to 1.3% in 2018. On a same store basis, profit from operations has increased by 7.6% on a YOY basis.

Finance income/ Finance (costs)

The Group's finance income decreased by RMB9.9 million to RMB139.9 million in 2018. The decrease in finance income was due to the decrease in bank interest and average cash balances during the year.

The Group's finance cost increased by RMB35.1 million to RMB208.1 million in 2018, which was due to the rise of bank loan interest.

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 RMB16.2 million from RMB18.5 million recorded in the 2017 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 Profit/ (Loss) from Associates

This is the share of results from the Group's associated companies. The Group generated the share of profit of RMB7.9 million, a turnaround increase of RMB12.2 million compared to the share of loss of RMB4.3 million recorded in 2017, which was mainly contributed by the profit generated by Parkson Newcore.

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

Due to the aforesaid reasons, the Group has recorded a PBT of RMB125.8 million compared to a loss before income tax of RMB43.7 million in 2017.

During 2017, the Group recorded three one-off items namely, i) provision for litigation settlement of RMB100.0 million which was related to the settlement for the disputes on the equity interests ownership of Anshan Parkson, ii) impairment of RMB17.6 million for investment in associates and iii) impairment of RMB0.8 million for goodwill. Excluding these one-off items, the PBT increased by RMB51.1 million or 68.4% compared to the adjusted PBT of RMB74.7 million recorded in 2017.

As a percentage to GSP, PBT ratio turnaround increased from (0.3%) to 1.0%.

Income Tax Expenses

The Group's income tax expenses increased by RMB90.4 million to RMB180.5 million in 2018, mainly due to i) the withholding tax of RMB33.0 million accrued for dividend distribution and ii) the increase of profit from operations.

Loss for the year

The Group recorded a net loss of RMB54.6 million for 2018, a decline of loss of RMB79.1 million as compared to 2017. As a percentage to GSP, the net profit margin increased from (1.0%) to (0.4%).

Loss Attributable to Owners of the Parent

Loss attributable to the owners of the parent was RMB79.3 million in 2018, a decline of loss of RMB56.7 million as compared to 2017.

Liquidity and Financial Resources

As at 31 December 2018, 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 RMB4,870.7 million, representing a reduction of RMB647.0 million or 11.7% from balance as at 31 December 2017 of RMB5,517.7 million. The decrease was primarily due to (i) net cash inflow from operating activities amounted to RMB381.0 million; (ii) net cash outflow from investing activities amounted to RMB437.8 million; and (iii) net cash outflow from financing activities amounted to RMB590.2 million.

Total debt to total assets ratio of the Group was 32.1% as at 31 December 2018.

Current Assets and Net Assets

The Group's current assets as at 31 December 2018 was RMB4,568.3 million. Net assets of the Group as at 31 December 2018 decreased by 6.0% to RMB4,624.9 million.

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 31 December 2018, the balance of these products was RMB664.8 million, accounting for approximately 5.3% 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 31 December 2018, the fair value of these products was RMB544.6 million, accounting for approximately 4.3% of the total assets of the Group.

Pledge of Assets

As at 31 December 2018, the Group has onshore pledged deposits of RMB1,938.9 million, pledged buildings, investment properties and prepaid land lease payment with a net carrying amount of approximately RMB1,895.4 million, RMB3.0 million and RMB382.7 million respectively to secure general bank loans. Other than the aforesaid, no other assets are pledged to any bank or lender.

EMPLOYEES

As at 31 December 2018, total number of employees for the Group was 6,293. 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 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 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 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 year ended 31 December 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 results of the year 2018. 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

21 February 2019

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