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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

HIGHLIGHTS

Total operating revenues for the year of 2021 increase to RMB4,738.5 million, representing a year-on-year increase of 7.0%.

Same Store Sales ("SSS") increased by 4.7% in 2021.

Total Gross Sales Proceeds ("GSP") inclusive of value-added tax were RMB11,916.8 million in 2021, representing a year-on-year increase of 6.2%.

Profit from operations for the year of 2021 was RMB323.6 million, a decrease of RMB25.4 million or 7.3% compared to RMB349.0 million recorded in 2020.

Loss attributable to owners of the Company amounted to RMB176.0 million in 2021.

The Group's 2021 performance indicators compared to last year show improvement. However, the business environment remains unstable due to COVID-19 pandemic.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

The board (the "Board") of directors (the "Directors") of Parkson Retail Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 with comparative figures for the previous year of 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2021** *RMB'000*	2020 *RMB'000*
Revenues	*5*	**4,187,737**	4,009,881
Other operating revenues	*5*	**550,765**	418,468
Total operating revenues		**4,738,502**	4,428,349
Operating expenses			
Purchases of goods and changes in inventories		**(2,316,169)**	(2,214,507)
Staff costs		**(580,409)**	(547,168)
Depreciation and amortisation		**(658,908)**	(690,353)
Rental expenses		**(57,458)**	13,917
Other operating expenses		**(802,008)**	(641,279)
Total operating expenses		**(4,414,952)**	(4,079,390)
Profit from operations		**323,550**	348,959
Finance income	*7*	**73,496**	99,922
Finance costs	*7*	**(495,718)**	(569,909)
Share of (losses)/profits of:			
– Joint ventures		**(2,971)**	2,027
– Associates		**8,345**	1,299
Loss before tax	*6*	**(93,298)**	(117,702)
Income tax expense	*8*	**(77,332)**	(119,218)
Loss for the year		**(170,630)**	(236,920)
Attributable to:			
– Owners of the Company		**(175,979)**	(250,114)
– Non-controlling interests		**5,349**	13,194
		(170,630)	(236,920)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic and diluted		**(RMB0.067)**	(RMB0.095)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021	2020
	RMB'000	*RMB'000*
Loss for the year	**(170,630)**	(236,920)
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations	**23,424**	86,489
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of the Company	**13,729**	64,602
Other comprehensive income for the year, net of tax	**37,153**	151,091
Total comprehensive income for the year	**(133,477)**	(85,829)
Attributable to:		
– Owners of the Company	**(138,826)**	(99,023)
– Non-controlling interests	**5,349**	13,194
	(133,477)	(85,829)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,233,959**	3,287,490
Investment properties		**538,582**	420,428
Right-of-use assets		**3,018,455**	3,815,672
Goodwill		**1,691,564**	1,770,538
Other intangible assets		**9,067**	14,450
Investments in joint ventures		**14,689**	19,748
Investments in associates		**51,079**	42,938
Trade receivables	*11*	**163,733**	97,184
Time deposits		**31,166**	729,880
Other assets		**393,384**	648,027
Deferred tax assets		**290,958**	265,764
		9,436,636	11,112,119
CURRENT ASSETS			
Inventories		**489,619**	425,055
Trade receivables	*11*	**210,910**	263,475
Prepayments and other receivables		**460,150**	766,340
Financial assets at fair value through profit or loss		**90,644**	242,472
Investments in principal guaranteed deposits		**500**	15,600
Time deposits		**704,467**	104,846
Cash and cash equivalents		**925,162**	1,499,324
		2,881,452	3,317,112
CURRENT LIABILITIES			
Trade payables	*12*	**854,660**	979,721
Other payables and accruals		**658,376**	598,919
Contract liabilities		**608,666**	629,237
Interest-bearing bank loans		**1,895,301**	1,134,253
Lease liabilities		**569,571**	556,092
Tax payable		**41,581**	58,940
		4,628,155	3,957,162
NET CURRENT LIABILITIES		**(1,746,703)**	(640,050)
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,689,933**	10,472,069

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	2021	2020
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**25,948**	1,816,306
Lease liabilities	**3,361,801**	4,151,702
Deferred tax liabilities	**245,510**	303,051
	3,633,259	6,271,059
NET ASSETS	**4,056,674**	4,201,010
EQUITY		
Issued capital	**55,477**	55,477
Reserves	**3,928,397**	4,067,223
	3,983,874	4,122,700
Non-controlling interests	**72,800**	78,310
TOTAL EQUITY	**4,056,674**	4,201,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Parkson Retail Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 3 August 2005. The Company has established a principal place of business in Hong Kong in Room 1010, 10th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

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"), and the provision of credit services in Malaysia.

In the opinion of the directors, the holding company and ultimate holding company of the Company is Parkson Holdings Berhad ("PHB"), which is incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

Going Concern Basis

The Group reported net current liabilities of RMB1,746,703,000 as at 31 December 2021. The unrestricted cash and cash equivalents amounted to RMB925,162,000 as at 31 December 2021. The Group incurred a net loss of RMB170,630,000 during the year ended 31 December 2021. These circumstances may cast significant doubt on the Group's ability to continue as a going concern.

Management has prepared a cash flow forecast of the Group for the next twelve months based on the existing situation, the future events and commitments of the Group. Management considered that the Group will have adequate working capital to meet its obligations, and therefore the consolidated financial statements of the Group have been prepared on a going concern basis. Measures and estimations have been taken into consideration by management, including and not limited to:

(a) On 6 December 2021, the Group entered into a facility agreement in relation to a syndicated term loan facility in an aggregate amount of up to HK$2,700,000,000 (equivalent to RMB2,207,520,000) with a syndicate of banks, as lenders. The loan facility has a term of 36 months commencing from the first drawdown date. The Group has drawn down HK$2,667,600,000 (equivalent to RMB2,182,630,000) in January 2022 to repay the existing syndicated loans of HK$2,112,000,000 (equivalent to RMB1,726,771,000) and to supplement the Group's operating cash flows.

(b) The Group has entered into a lease contract for one of its investment properties located in Beijing Financial Street with a term of 12 years with annual rental of approximately RMB250,068,000 (inclusive of value-added tax). The property is under assets enhancement and is expected to complete in the first quarter of 2022 to hand over to the tenant. In the opinion of management, the rental income would contribute to the Group's operating cash flows in the coming twelve months.

(c) The Group continues to focus on the improvement of its retail business operation, including opening new department stores with competitive advantages, closing those non-performing department stores, placing more focus on the fashion and beauty division and improving its "online + offline" sales model. In addition, considering the expected recovery of economy of the PRC from the normalisation of COVID-19 pandemic, the business operation of the Group is expected to be recovered.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has applied for the first time the following new and amended IFRSs issued by the IASB, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

Except for those mentioned below, application of the amendments to IFRSs in the current period had no material impact on the Group's performance and financial positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

Amendment to IFRS 16 "COVID-19-Related Rent Concessions beyond 30 June 2021"

The amendment extends the availability of the practical expedient in paragraph 46A of IFRS 16 so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions as stated in paragraph 46B of IFRS 16 for applying the practical expedient are met.

A lessee that chooses to apply this practical expedient would be required to apply it consistently to all lease contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying this amendment or Amendment to IFRS 16 "COVID-19-Related Rent Concessions". Additional disclosures are required if this practical expedient is used.

The Group has elected to early adopt the amendment. Consequently, rent concessions received have been recognised in the consolidated statement of profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2021.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Going concern consideration

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that may individually or collectively cast a significant doubt upon the going concern assumption are set out in note 2.1 to the consolidated financial statements.

4. GROSS SALES PROCEEDS

	2021	2020
	RMB'000	*RMB'000*
Sale of goods from direct sales	**2,697,209**	2,608,000
Gross revenue from concessionaire sales	**6,914,743**	6,612,704
Total merchandise sales	**9,611,952**	9,220,704
Others (including consultancy and management service fees, gross rental income, credit services income and other operating revenues)	**1,055,312**	806,189
Total gross sales proceeds	**10,667,264**	10,026,893
Total gross sales proceeds (inclusive of value-added tax)	**11,916,816**	11,225,585

5. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenues

	2021	2020
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods from direct sales	**2,697,209**	2,608,000
Commissions from concessionaire sales	**985,981**	1,014,160
Consultancy and management service fees	**40,729**	10,763
	3,723,919	3,632,923
Revenue from other sources		
Gross rental income	**398,357**	317,618
Credit services	**65,461**	59,340
	463,818	376,958
	4,187,737	4,009,881

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Rental income is recognised on a time proportion basis over the lease terms. Credit services income is recognised when the relevant services are rendered.

Other operating revenues

	2021	2020
	RMB'000	*RMB'000*
Credit card handling fees	**31,050**	28,456
Promotion income	**58,838**	56,736
Electricity and water fees	**109,361**	86,054
Administration fees	**128,006**	96,031
Display space and equipment leasing income	**59,222**	52,826
Service fees	**30,105**	19,492
Government grants *(Note)*	**7,940**	14,027
Other income arising from the recognition of net investments in subleases	**3,517**	25,144
Other income arising from lease modification and termination	**91,774**	–
Proceeds from settlement of COVID-19 related insurance claims	**–**	8,000
Other income	**30,952**	31,702
	550,765	418,468

Note:

Various local government grants have been granted to reward the Group for its contributions to the local economy and relieve the Group's burdens of its operational challenges related to COVID-19. There were no unfulfilled conditions or contingencies attaching to these government grants.

Segment information

For management purposes, the Group has one major operating segment, which is "Retail". The Group operates department stores mainly in the PRC. Revenues arising from this segment include sales of goods in direct sales, commissions from concessionaire sales, consultancy and management service fees and rental income from tenants. Besides, the Group provides consumer financing business which is carried out by Parkson Credit Sdn. Bhd. ("Parkson Credit") in Malaysia.

Revenue from external customers are mostly generated in the PRC and almost all significant operating assets of the Group are located in the PRC. Since revenue from external customers and non-current assets excluding financial instruments and deferred tax assets of overseas companies outside the PRC are not material to the Group's consolidated revenue and non-current assets excluding financial instruments and deferred tax assets, management believes there is no need to disclose geographical information.

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2021	2020
	RMB'000	*RMB'000*
Staff costs excluding directors' and chief executive's remuneration:		
– Wages, salaries and bonuses	**441,642**	449,757
– Pension scheme contributions	**51,910**	12,212
– Social welfare and other costs	**80,042**	78,372
	573,594	540,341
Directors' and chief executive's remuneration	**6,815**	6,827
Total staff costs	**580,409**	547,168
Rental expenses in respect of leased properties:		
– Lease payments not included in the measurement of lease liabilities	**78,141**	74,512
– COVID-19 related rent concessions from lessors*	**(20,683)**	(88,429)
Total rental expenses	**57,458**	(13,917)
Gross rental income in respect of investment properties	**(1,149)**	(786)
Lease income in respect of sublease of properties under operating lease:		
– Minimum lease payments**	**(296,479)**	(217,439)
– Contingent lease payments***	**(100,729)**	(99,393)
Total gross rental income	**(398,357)**	(317,618)
Cost of inventories recognised as expenses, including	**2,316,169**	2,214,507
– (Reversal of impairment)/Impairment of inventories, net	**(3,407)**	2,846
Depreciation and amortisation	**658,908**	690,353
Impairment of trade receivables	**7,624**	9,299
Impairment of prepayments and other receivables	**2,169**	20,816
Impairment of property, plant and equipment	**13,957**	31,184
Impairment of right-of-use assets	**37,661**	–
Impairment of goodwill	**78,974**	–
Impairment of other intangible assets	**–**	1,652
Foreign exchange differences, net	**(1,641)**	(1,956)
Losses on disposal of property, plant and equipment, net	**3,457**	5,341
Gain on disposal of a subsidiary	**(300)**	–
Auditor's remuneration	**3,187**	4,273
Direct operating expenses arising from rental-earning investment properties	**2,094**	1,335

* The Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain properties during the year.

** Minimum lease payments of the Group include 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 the relevant performance of the tenants pursuant to the relevant rental agreements.

7. FINANCE INCOME/(COSTS)

	2021	2020
	RMB'000	*RMB'000*
Finance income:		
Bank interest income	**40,417**	65,412
Gain on redemption of financial assets at fair value through profit or loss	**4,315**	5,713
Change of fair value of financial assets at fair value through profit or loss	**524**	1,789
Finance income on the net investments in subleases	**28,240**	27,008
	73,496	99,922
Finance costs:		
Interest on lease liabilities	**(402,777)**	(429,898)
Interest on interest-bearing bank loans and other borrowings	**(92,941)**	(140,011)
	(495,718)	(569,909)
Finance costs, net	**(422,222)**	(469,987)

8. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on the assessable 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 consolidated statement of profit or loss is as follows:

	2021	2020
	RMB'000	*RMB'000*
Current income tax	**160,067**	167,532
Deferred income tax	**(82,735)**	(48,314)
	77,332	119,218

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

The calculations of basic and diluted loss per share are based on:

	2021	2020
	RMB'000	*RMB'000*
Loss		
Loss attributable to ordinary equity holders of the Company, used in the basic and diluted loss per share calculations	**(175,979)**	(250,114)

	2021	2020
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**2,634,532**	2,634,532

10. FINAL DIVIDEND

The Board has resolved not to declare any final dividend for the year ended 31 December 2021 (2020: nil).

11. TRADE RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Current		
Third party	**215,663**	267,790
Joint venture	**130**	328
Less: Impairment allowance	**(4,883)**	(4,643)
	210,910	263,475
Non-current		
Third party	**168,011**	99,627
Less: Impairment allowance	**(4,278)**	(2,443)
	163,733	97,184
	374,643	360,659

Trade receivables mainly arise from purchase by customers with credit card and credit services arise from loan receivables. The credit period of trade receivables is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances, except for loan receivables which are secured over the motor vehicles of customers. Among the balance, RMB287,426,000 (2020: RMB281,900,000) are with an interest rate ranging from 9% to 19% (2020: 9% to 19%), depending on the payment term of loan receivables, while others are interest-free.

Included in the Group's trade receivables as at 31 December 2021 were amounts due from the Group's joint venture of approximately RMB130,000 (2020: RMB328,000), which are attributable to the consultancy fee income of the Group. These balances are unsecured and interest-free.

As at 31 December 2021, Parkson Credit's trade receivables of RMB217,148,000 (2020: RMB211,673,000) and unrealised receivables of RMB62,882,000 (2020: RMB44,279,000) which will be due within 48 months, were pledged to secure Parkson Credit's bank loans in Riggit Malaysia.

An ageing analysis of the trade receivables as at 31 December 2021 and 2020, based on the invoice date and net of loss allowance, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 1 year	**210,910**	263,475
1 to 2 years	**98,638**	66,224
Over 2 years	**65,095**	30,960
	374,643	360,659

12. TRADE PAYABLES

An ageing analysis of the trade payables, based on the recognition date, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**814,602**	934,718
4 to 12 months	**15,765**	28,140
Over 1 year	**24,293**	16,863
	854,660	979,721

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 Thursday, 19 May 2022 (the "AGM"), the register of members of the Company will be closed from Monday, 16 May 2022 to Thursday, 19 May 2022, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on Friday, 13 May 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the Group's annual results for the year ended 31 December 2021 (the "year under review").

2021 was a year of ups and downs. Along with the introduction of COVID-19 vaccines and the implementation of economic recovery measures, the global economy is showing signs of recovery. When the pandemic was expected to subside gradually, new variants of viruses such as Delta and Omicron swept the globe. Fortunately, people are beginning to adapt to the "New Normal" under the pandemic, especially in China. According to the latest data released by the National Bureau of Statistics of China, China's GDP reached RMB114.4 trillion in 2021, representing an increase of 8.1% from 2020. In addition, the total retail sales of consumer goods in China in 2021 increased by 12.5% year-on-year.

Nevertheless, the pandemic is still unpredictable. Under this challenging and unstable business environment, the Group has adopted several cost control measures during the year under review, such as reducing rental and operating costs, and stimulating consumer spending through online platform promotion activities, in order to reduce the impact of the pandemic and other unfavourable factors. The market is expected to rebound as countries are rolling out economic recovery measures, coupled with people's versatility to adapt to the new environment. Under these circumstances, the Group is committed to strengthening its position as a leading fashion and lifestyle retailer in China through a diversified development strategy.

ECONOMIC REVIEW

Despite the tough challenges faced, China's economy had withstood the pressure, demonstrated strong recovery and taken the lead in containing the pandemic.

Although China's overall economic environment is gradually picking up, the domestic retail market is still under pressure. In the first half of the year, with the introduction of COVID-19 vaccines, China had achieved effective control over the pandemic. Local governments eased the restrictions on the flow of people in public areas, especially in restaurants and department stores. Consumption rebounded in China, and the retail market gradually stabilised. In the second half of the year, despite having achieved effective control over the virus outbreak, the occurrence of variant viruses had brought uncertainties to the economic environment, causing Chinese consumers to be more cautious in their consumption.

Although the Group is facing various challenges including the COVID-19 pandemic, we believe the retail market is an industry with stronger risk tolerance, as compared with other markets. As the living standards of people continue to improve, consumption will still be the primary driving force for China's economic growth in the future, and the Group remains positive about the prospects of the entire industry. To this end, the Group will continue to strive to improve customer experience, in order to fully capture potential opportunities provided by the Chinese retail market. Meanwhile, the Group will continue to diversify the income sources, establish online and offline sales channels, and promote long-term sustainable development of its businesses.

BUSINESS REVIEW

During the year under review, the Group recorded gross sales proceeds of RMB11,916.8 million (including value-added tax); an increase of 6.2% over the previous year, mainly due to the increase in same-store sales. Same-store sales increased by 4.7% during the year under review as the impact of the COVID-19 pandemic was reducing. During the year under review, the overall gross profit margin of the Group's sales decreased to 14.2% compared to 15.3% in 2020, but total operating income increased by RMB310.2 million or 7.0% to RMB4,738.5 million, whilst operating profit was RMB323.6 million, a decrease of 7.3% over the same period last year.

Despite the repeated virus outbreaks, the Group still maintains a positive attitude towards the prospects of the industry, as the consumer market adapts to the new normal with stronger risk tolerance than other markets. The Group will continue to promote the development of diversified businesses, and diversification of income sources through the development of various operating models, so as to drive the sustainable development of the Group.

During the year under review, the Group's Datong Parkson store and Wuzhou Sanqi Parkson officially commenced operations in January and September 2021 respectively. In addition, "Parkson Changfa Hui" also started trial operations on 31 December 2021. As at 31 December 2021, the Group operated and managed 43 Parkson stores (including the concept store "Parkson Beauty"), 1 Lion Mall, and 2 Parkson Newcore City Malls, in 30 cities in China; along with its supermarkets, apparel and F&B outlets.

Strong alliance to jointly expand the portfolio of Parkson

Facing the continuous challenges of market changes and fierce competition, Parkson focused on expanding its retail portfolio with a flexible and diverse strategy. The Group believes that its strategy of "Multiple Stores in a City" and "Differentiate Market Positioning" can reach out to more customers at different consumption levels and with different consumption habits. This will enable the Group to gain more market share in the long run.

The Group's second department store in Datong City, Shanxi Province successfully opened in January 2021. The store operates as a "department store and shopping mall complex", in order to enhance the retail portfolio of the property.

In addition, the Group's fourth store in Guangxi Zhuang Autonomous Region, "Wuzhou Sanqi Parkson", also commenced service in September 2021. The store represents a new cultural landmark integrating office, residence, hotel, F&B, retail, and entertainment, which is in line with the Group's development strategy in this region.

Furthermore, "Parkson Changfa Hui" commenced trial operations on 31 December 2021. The upgrading and renovation project of Suzhou Changfa Commercial Building was officially unveiled with a new look of "Parkson Changfa Hui". The new landmark jointly created by Jinjin Changfa Group, a well-known commercial brand in Suzhou City, Jiangsu Province, marks the Group's official entry into the core market of Suzhou City.

On 11 July 2021, the Group's indirect wholly-owned subsidiary, Jiangxi Parkson Shopping Centre Management Co., Ltd. signed a Tenancy Agreement with Yichun Hong Lin Hotel Co., Ltd. with the intention of opening a new store in Yichun City, Jiangxi Province. The Group believes that this project will play an important role in the development of the Group's business in Jiangxi Province; and when it opens in 2022, it will be the Group's third store in Jiangxi Province.

Being bold to change and develop diversified business

As one of the leading advocates of fashion and lifestyle retail concepts in China, Parkson is dedicated to developing an excellent reputation, maintaining its customer base, and attracting new customers, by differentiating its products and enhancing consumer experience. During the year under review, the Group strategically expanded its product portfolio to meet the growing consumer needs.

The Group constantly monitors the development trend of the beauty market, and launches targeted development strategies for the beauty sector. For instance, the Group collaborates with several well-known beauty brands to introduce exclusive products in combination with customised service experiences to attract the younger generation consumers. Parkson's self-operated makeup brands – Parkson Beauty and Play Up have become enormously popular among young consumers after adopting these differentiated product strategies. The Group will continue to raise its brand image and reputation through different marketing promotions, in order to strengthen its image as a trendy retailer and open up more stores in the future.

On 28 June 2021, the Group signed an agreement with Wenzhou WanYing to open a new Parkson Beauty store in Wenzhou city, Zhejiang Province, which is targeted to open in 2022. It is expected that the opening of the store will help the Group to further grow its business in the sector.

The Group also evaluates and adjusts its resources in a timely manner in order to utilise resources more effectively and achieve diversified business development. In order to meet the needs of modern cities in China, the Group adjusted and transformed Sichuan Shishang Parkson into an outlet store. As the Group's first wholly-owned outlet store in China, Sichuan Shishang Parkson Outlet Store opened on 31 December 2021.

The Group signed a lease contract for the office building of the North Building of the Parkson Store in Fuxingmen, Beijing in October of 2021. During this period, the Group continued to keep up with the renovation of this office building and expects to hand over to the lessee in first quarter of 2022. Located in Beijing Financial Street, the Group is confident that the Fuxingmen North Building will contribute stable recurring rental income to the Group.

Keeping pace with the times to combine online and offline consumption

As a leading fashion and lifestyle retailer in China, Parkson also keeps pace with the times and trends. In view of the advancement of internet technology and the impact of the COVID-19 pandemic, offline consumption model has been significantly affected. The retail industry has entered a business model that combines online and offline. In order to seize the growth opportunities of online retailing, the Group has promoted the "O2O New Retail Strategy" through online channels such as Parkson's official WeChat account and mobile shopping mini-programs, and launched a number of measures to stimulate consumption to promote the growth of its offline retail business. Meanwhile, the Group seized the opportunities to invite customers to visit Parkson stores to optimise their shopping experience.

Outlook and future plans

Although the pandemic has been gradually brought under control due to the increased COVID-19 vaccination rate, the new variants of viruses show that the pandemic is not completely over. As the requirements of quarantines, social distancing, and travel restrictions have not been relaxed, consumers are beginning to regain their inclination to spend in the domestic market. Therefore, the Group remains optimistic about the prospects of the overall retail market in China next year.

Looking ahead, the Group will actively review market trends and understand customer needs, expand product categories in Parkson retail stores, and provide customers with a more diversified range of high-quality products to fully seize the opportunities brought about by market recovery. The Group will also devote more efforts and resources to online advertising to attract offline retail sales. To this end, the Group will continue to implement the "O2O New Retail Strategy" vigorously, and integrate online and offline retail experiences through social media platforms such as Douyin, WeChat, Mini Programs, and customised clients, harness the changes in the retail industry and market demands, and expand market share through high-quality products and services.

In the face of the macro economic instability, the Group is actively looking for business partners with strong reputation to diversify the Group's business portfolio and to be more resilient, so as to strengthen Parkson's position as a leading fashion and lifestyle retailer in China. Looking forward, we believe that with the Group's effective business strategies and extensive experience in the retail market over the past two decades, we can achieve stable performance in a challenging environment and create long term value for shareholders. I would like to take this opportunity to sincerely thank our employees, customers, shareholders, suppliers and business partners for their firm support to the Group over the years. We look forward to such continued cooperation in the years to come.

FINANCIAL REVIEW

Total GSP and operating revenues

During 2021, total GSP (inclusive of value-added tax) increased by 6.2% to RMB11,916.8 million, mainly due to the increase in total merchandise sales resulting from the increase in SSS. SSS increased by 4.7% in 2021.

Total merchandise sales

	2021		2020		**Year-on-year change** *(%)*
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Concessionaire sales	**6,914,743**	**71.9%**	6,612,704	71.7%	4.6%
Direct sales	**2,697,209**	**28.1%**	2,608,000	28.3%	3.4%
	9,611,952	**100.0%**	9,220,704	100.0%	4.2%

Total merchandise sales (net of value-added tax) increased by RMB391.2 million or 4.2% to RMB9,612.0 million in 2021. Concessionaire sales which constituted 71.9% of the Group's total merchandise sales in 2021 increased by 4.6% as compared to 2020 while direct sales increased by 3.4% as compared to 2020. The merchandise sales showed improvement in 2021 as compared to 2020 due to the reduced impact from COVID-19 disruptions. However, the business environment remains unstable due to COVID-19 pandemic.

Merchandise gross margin

The Group's merchandise gross margin (the combination of concessionaire commission rate and direct sales margin) decreased from 15.3% in 2020 to 14.2% in 2021, primarily due to increased promotional activities to stimulate sales during the year.

Total operating revenues

Total operating revenues of the Group increased by RMB310.2 million or 7.0% to RMB4,738.5 million in 2021, mainly due to the increase in the revenue from contracts with customers. Revenue from contracts with customers consists of sales of goods from direct sales, commissions from concessionaire sales and consultancy and management service fees and constituted 78.6% of the total operating revenues in 2021. Revenue from contracts with customers increased by RMB91.0 million or 2.5% compared to 2020.

Operating expenses

Purchase of goods and changes in inventories

Purchase of goods and changes in inventories represent the cost of sales for direct sales, which increased by RMB101.7 million or 4.6% from RMB2,214.5 million in 2020 to RMB2,316.2 million in 2021. The increase was primarily due to increase in procurement of goods from third party vendors, resulting from the increased direct sales.

Staff costs

Staff costs increased by RMB33.2 million or 6.1% to RMB580.4 million in 2021 from RMB547.2 million in 2020, mainly due to the increase in pension scheme contributions, unemployment insurance and work-related injury insurance as compared to 2020, for which exemption was given by government in 2020 to support enterprises in response to COVID-19 pandemic. On a same store basis, staff costs increased by 6.2%.

Staff costs as a percentage of GSP decrease from 5.5% in 2020 to 5.4% in 2021.

Depreciation and amortisation

Depreciation and amortisation decreased by 4.6% from RMB690.4 million in 2020 to RMB658.9 million in 2021. The decrease was primarily due to savings from fully depreciated or amortised assets in some stores. In 2021, depreciation expense on the right-of-use assets of RMB451.8 million was recognised as compared to RMB467.8 million in 2020. On a same store basis, depreciation charges decreased by 6.2%.

Depreciation and amortisation as a percentage of GSP decrease from 6.9% in 2020 to 6.2% in 2021.

Rental expenses

Rental expenses of the Group was RMB57.5 million in 2021 as compared to negative rental expenses of RMB13.9 million in 2020. In 2021, RMB20.7 million (2020: RMB88.4 million) was deducted in rental expenses to reflect changes in lease payments that arise from rent concessions to which the practical expedient under IFRS 16 is applied. On a same store basis, rental expenses increased by 512.9% in 2021.

Rental expenses as a percentage of GSP were 0.5% in 2021, as compared to (0.1%) in 2020.

Other operating expenses

Other operating expenses, which consist primarily 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, increased by 25.1% to RMB802.0 million in 2021 from RMB641.3 million in 2020 as a result in the increase in utilities cost and marketing, promotional and selling expenses. In addition, impairment of RMB140.4 million was provided in 2021 in light of the latest market environment, the impact caused by the pandemic of COVID-19 and the management's assessment on the business prospect. On a same store basis, other operating expenses increased by 32.4%.

Other operating expenses as a percentage of GSP were 7.5% in 2021, as compared to 6.4% in 2020.

Profit from operations

The Group generated a profit from operations of RMB323.6 million for 2021, a decrease of RMB25.4 million or 7.3% compared to RMB349.0 million recorded in 2020.

Profit from operations as a percentage of GSP decreased from 3.5% in 2020 to 3.0% in 2021.

Finance income/costs

The Group incurred net finance costs of RMB422.2 million in 2021 which represented a decrease of RMB47.8 million or 10.2% compared to RMB470.0 million in 2020. In 2021, interest on lease liabilities of RMB402.8 million was recognised as compared to RMB430.0 million in 2020 and finance income on the net investments in sublease of RMB28.2 million was recognised as compared to RMB27.0 million in 2020.

Share of (losses)/profits of joint ventures

The share of (losses)/profits of joint ventures mainly consisted of the share of (loss)/profit of Xinjiang Youhao Parkson Development Co., Ltd.. The share of loss was RMB3.0 million in 2021 as compared to the share of profit of RMB2.0 million in 2020. These losses were primarily due to the expenses incurred for the closure of Xinjiang store.

Share of profits of associates

The share of profits from associates increase to RMB8.3 million in 2021 from RMB1.3 million in 2020. This increase was due to the reduce impact from COVID-19 disruptions.

Loss before tax

Loss before tax decreased by 20.7% from RMB117.7 million to RMB93.3 million in 2021. This decrease in loss before tax was primarily due to increase in total operating revenues.

Loss before tax as a percentage of GSP was 0.9% in 2021 as compared to 1.2% in 2020.

Income tax expense

The Group's income tax expense decreased by 35.1% to RMB77.3 million in 2021 from RMB119.2 million in 2020, primarily due to lesser withholding taxes incurred in 2021.

Loss for the year

The Group's loss for the year decreased by RMB66.3 million to RMB170.6 million in 2021 from RMB236.9 million in 2020.

Loss attributable to owners of the Company

Loss attributable to the owners of the Company decreased from RMB250.1 million in 2020 to RMB176.0 million in 2021.

Liquidity and financial resources

As at 31 December 2021, the Group had cash and cash equivalents of RMB925.2 million (2020: RMB1,499.3 million), time deposits of RMB735.6 million (2020: RMB834.7 million), financial assets at fair value through profit or loss of RMB90.6 million (2020: RMB242.5 million) and investments in principal guaranteed deposits of RMB0.5 million (2020: RMB15.6 million).

The Group's cash and cash equivalents are mainly denominated in Renminbi with the remaining denominated in United States dollars, Hong Kong dollars and others.

Total debt to total assets ratio of the Group was 15.6% (2020: 20.4%) as at 31 December 2021.

Current assets and net assets

The Group's current assets as at 31 December 2021 was RMB2,881.5 million. Net assets of the Group as at 31 December 2021 decreased by 3.4% to RMB4,056.7 million.

Information on the financial products

The Group's investments in principal guaranteed deposits consisted of principal-preservation type wealth management products managed by licensed financial institutions in the PRC. As at 31 December 2021, the balance of these products was RMB0.5 million.

The Group's financial assets at fair value through profit or loss consisted of non-principal-preservation type wealth management products managed by licensed financial institutions in the PRC. As at 31 December 2021, the fair value of these products was RMB90.6 million.

Pledge of Assets

As at 31 December 2021, the Group has pledged deposits of RMB704.3 million, pledge trade receivables of RMB217.1 million, pledged buildings, investment properties and leasehold land with a net carrying amount of approximately RMB2,358.5 million, RMB482.4 million and RMB344.2 million respectively to secure general bank loans. The Group has pledged unrealised receivables of RMB62.9 million which will be due within 48 months to secure the general interest-bearing bank loans. In addition, the Group has pledged deposits of RMB31.2 million held in designated bank accounts for performance guarantee.

Other than the aforesaid, no other assets are pledged to any bank or lender.

EMPLOYEES

As at 31 December 2021, total number of employees for the Group was 4,963. 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 THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2021, the Company has fully complied with the Corporate Governance Code (the "CG Code") (to the extent that such provisions are applicable) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (collectively, the "Listing Rules") except for below deviation from the code provision A.2.1 of the CG Code:–

Under Code Provision A.2.1 of the CG code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company had not appointed a Chief Executive Officer ("CEO"), certain functions of CEO have been undertaken by Tan Sri Cheng Heng Jem, the Executive Director and Chairman of the Company. The Company has deviated from Code Provision A.2.1 of the CG Code during the year ended 31 December 2021. The Board believes that vesting the roles of both Chairman and the CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being Independent Non-executive Directors.

On 1 January 2022, Mr. Zhou Jia was appointed as the Acting Chief Executive Officer of the Group. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. Meanwhile, the Acting CEO is responsible for the formulation and monitoring of the overall strategic plans, business development and involved in the day-to-day management of the Group.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its businesses and to review such practices from time to time to ensure that they comply with the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding Directors' securities transaction. Specific enquiry has been made to all the Directors and all Directors have confirmed that they have complied with the standards as set out in the Model Code throughout the year ended 31 December 2021.

AUDIT COMMITTEE

The Audit Committee has been established by the Company to review the financial reporting matters, internal control and maintain an appropriate relationship with the Company's external auditor. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2021, including the accounting principles and policies adopted by the Group. The Audit Committee comprises the non-executive director and three independent non-executive directors of the Company, one of whom who has appropriate professional qualification and experience in financial matters as required by the Listing Rules.

SCOPE OF WORK OF GRANT THORNTON HONG KONG LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Company's auditors, Grant Thornton Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Grant Thornton Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Grant Thornton Hong Kong Limited on the preliminary announcement.

PUBLICATION OF FINAL RESULTS

This announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The 2021 annual report will be dispatched to shareholders of the Company and available on the above websites 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 2022

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 Director is Dato' Sri Dr. Hou Kok Chung and the Independent Non-executive Directors are Dato' Fu Ah Kiow, Mr. Yau Ming Kim, Robert and Mr. Koong Lin Loong.