

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2022**

HIGHLIGHTS

Total operating revenues for the period amounted to RMB1,993.4 million, representing a decrease of 19.8% as compared to RMB2,486.0 million for the corresponding period of last year.

Same store sales (“SSS”) for the period decreased by 20.9%.

Total gross sales proceeds (“GSP”) inclusive of value-added tax for the period were RMB5,002.3 million, representing a year-on-year decrease of 20.0%.

Profit from operations for the period was RMB2.7 million, representing a decrease of RMB244.7 million or 98.9% as compared to RMB247.4 million for the corresponding period of last year.

Loss attributable to owners of the Company for the period was RMB197.5 million, as compared to a profit of RMB7.0 million recorded for the corresponding period of last year.

The changes in the above performance indicators of the Group was weaker as compared to the corresponding period of last year due to the recurrence of 2019 novel coronavirus (“COVID-19”) pandemic in various cities in the PRC since early 2022 and related prevention and control quarantine measures during the period.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “Board”) of directors (the “Directors”) of Parkson Retail Group Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 (“1H2022”) with comparative figures for the corresponding period in the year 2021 (“1H2021”). The unaudited consolidated interim results have been reviewed by the auditor, Grant Thornton Hong Kong Limited 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	
		2022 RMB'000 Unaudited	2021 RMB'000 Unaudited
Revenues	4	1,768,859	2,256,158
Other operating revenues	4	<u>224,564</u>	<u>229,847</u>
Total operating revenues		<u>1,993,423</u>	<u>2,486,005</u>
Operating expenses			
Purchases of goods and changes in inventories		(998,273)	(1,263,613)
Staff costs		(280,851)	(288,008)
Depreciation and amortisation		(309,121)	(338,913)
Rental expenses		(12,828)	(46,305)
Other operating expenses		<u>(389,629)</u>	<u>(301,742)</u>
Total operating expenses		<u>(1,990,702)</u>	<u>(2,238,581)</u>
Profit from operations		2,721	247,424
Finance income	6	31,026	40,543
Finance costs	6	(217,673)	(259,459)
Share of (losses)/profits of:			
– A joint venture		(1,182)	4,186
– Associates		<u>(4,897)</u>	<u>5,075</u>
(Loss)/Profit before tax	5	<u>(190,005)</u>	<u>37,769</u>
Income tax expense	7	<u>(6,827)</u>	<u>(26,943)</u>
(Loss)/Profit for the period		<u>(196,832)</u>	<u>10,826</u>
Attributable to:			
– Owners of the Company		(197,521)	6,987
– Non-controlling interests		<u>689</u>	<u>3,839</u>
		<u>(196,832)</u>	<u>10,826</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic and diluted		<u>(RMB0.075)</u>	<u>RMB0.003</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	Unaudited	Unaudited
(Loss)/Profit for the period	<u>(196,832)</u>	<u>10,826</u>
Other comprehensive (expense)/income		
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations	(77,180)	16,807
Other comprehensive expense that will not be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of the Company	<u>(31,455)</u>	<u>(1,357)</u>
Other comprehensive (expense)/income for the period, net of tax	<u>(108,635)</u>	<u>15,450</u>
Total comprehensive (expense)/income for the period	<u>(305,467)</u>	<u>26,276</u>
Attributable to:		
– Owners of the Company	(306,156)	22,437
– Non-controlling interests	<u>689</u>	<u>3,839</u>
	<u>(305,467)</u>	<u>26,276</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2022 RMB'000 Unaudited	As at 31 December 2021 RMB'000 Audited
NON-CURRENT ASSETS			
Property, plant and equipment		3,160,172	3,233,959
Investment properties		574,615	538,582
Right-of-use assets		2,727,255	3,018,455
Goodwill		1,683,979	1,691,564
Other intangible assets		6,597	9,067
Investment in a joint venture		13,507	14,689
Investment in associates		46,182	51,079
Trade receivables	10	177,769	163,733
Time deposits		29,966	31,166
Other assets		386,179	393,384
Deferred tax assets		313,823	290,958
		<u>9,120,044</u>	<u>9,436,636</u>
CURRENT ASSETS			
Inventories		434,030	489,619
Trade receivables	10	197,559	210,910
Prepayments and other receivables		447,847	460,150
Financial assets at fair value through profit or loss		86,320	90,644
Investments in principal guaranteed deposits		–	500
Time deposits		105,824	704,467
Cash and cash equivalents		1,749,323	925,162
		<u>3,020,903</u>	<u>2,881,452</u>
CURRENT LIABILITIES			
Trade payables	11	689,021	854,660
Other payables and accruals		647,009	658,376
Contract liabilities		592,580	608,666
Interest-bearing bank loans		234,295	1,895,301
Lease liabilities		675,594	569,571
Tax payable		28,872	41,581
		<u>2,867,371</u>	<u>4,628,155</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>153,532</u>	<u>(1,746,703)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,273,576</u>	<u>7,689,933</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2022 <i>RMB'000</i> Unaudited	As at 31 December 2021 <i>RMB'000</i> Audited
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	2,216,817	25,948
Lease liabilities	3,065,776	3,361,801
Deferred tax liabilities	<u>241,080</u>	<u>245,510</u>
	<u>5,523,673</u>	<u>3,633,259</u>
NET ASSETS	<u>3,749,903</u>	<u>4,056,674</u>
EQUITY		
Issued capital	55,477	55,477
Reserves	<u>3,622,241</u>	<u>3,928,397</u>
	3,677,718	3,983,874
Non-controlling interests	<u>72,185</u>	<u>72,800</u>
TOTAL EQUITY	<u>3,749,903</u>	<u>4,056,674</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 mainly 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. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34 “*Interim Financial Reporting*” issued by the International Accounting Standards Board.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

3. GROSS SALES PROCEEDS

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Sale of goods from direct sales	1,155,058	1,474,991
Gross revenue from concessionaire sales	<u>2,872,126</u>	<u>3,627,459</u>
Total merchandise sales	4,027,184	5,102,450
Others (including consultancy and management service fees, gross rental income, credit services income and other operating revenues)	<u>451,611</u>	<u>487,898</u>
Total gross sales proceeds	<u><u>4,478,795</u></u>	<u><u>5,590,348</u></u>
Total gross sales proceeds (inclusive of value-added tax)	<u><u>5,002,329</u></u>	<u><u>6,253,666</u></u>

4. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenues

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
<i>Revenue from contracts with customers</i>		
Sale of goods from direct sales	1,155,058	1,474,991
Commissions from concessionaire sales	386,754	523,116
Consultancy and management service fees	<u>5,777</u>	<u>35,707</u>
	<u>1,547,589</u>	<u>2,033,814</u>
<i>Revenue from other sources</i>		
Gross rental income	188,839	188,485
Credit services	<u>32,431</u>	<u>33,859</u>
	<u>221,270</u>	<u>222,344</u>
	<u><u>1,768,859</u></u>	<u><u>2,256,158</u></u>

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

	For the six months ended 30 June	
	2022 <i>RMB'000</i> Unaudited	2021 <i>RMB'000</i> Unaudited
Credit card handling fees	13,341	15,660
Promotion income	21,362	26,545
Electricity and water fees	51,777	53,168
Administration fees	70,702	59,823
Display space and equipment leasing income	26,355	30,005
Service fees	12,173	13,790
Government grants (<i>Note</i>)	6,216	5,144
Other income	22,638	25,712
	224,564	229,847

Note:

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 Sdn. Bhd. (“Parkson Credit”) in Malaysia, the Group has a single operating and reportable segment which is the operation and management of department stores mainly in the PRC. Except for credit services, revenues from external customers are generated mainly in the PRC and all significant operating assets of the Group are mainly in the PRC.

As the consumer financing business in Malaysia and other companies out of the PRC do not have a material impact on the Group’s results based on a measure of revenues, profit and total assets, for management purpose, there is no need to disclose a separate operating and reportable segment.

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2022 <i>RMB'000</i> Unaudited	2021 <i>RMB'000</i> Unaudited
Staff costs excluding directors' and chief executive's remuneration:		
– Wages, salaries and bonuses	216,231	221,745
– Pension scheme contributions	24,126	24,032
– Social welfare and other costs	36,826	38,835
	<u>277,183</u>	<u>284,612</u>
Directors' and chief executive's remuneration	3,668	3,396
Total staff costs	<u><u>280,851</u></u>	<u><u>288,008</u></u>
Rental expenses in respect of leased properties:		
– Lease payments not included in the measurement of lease liabilities	39,631	46,427
– COVID-19 related rent concessions from lessors	(26,803)	(122)
Total rental expenses	<u><u>12,828</u></u>	<u><u>46,305</u></u>
Gross rental income in respect of investment properties	(2,898)	(1,657)
Lease income in respect of sublease of properties under operating leases:		
– Minimum lease payments *	(128,264)	(119,955)
– Contingent lease payments **	(57,677)	(66,873)
Total gross rental income	<u><u>(188,839)</u></u>	<u><u>(188,485)</u></u>
Cost of inventories recognised as expenses	998,273	1,263,613
Depreciation and amortisation	309,121	338,913
Impairment of trade receivables	3,466	1,904
Impairment of prepayments and other receivables	878	293
Impairment of property, plant and equipment	15,078	–
Impairment of investment properties	2,263	–
Impairment of right-of-use assets	38,414	–
Impairment of goodwill	7,585	–
Loss on disposal of property, plant and equipment and investment properties, net	1,497	–
Gain on disposal of a subsidiary	(1,310)	–
Foreign exchange differences, net	21,805	725
Auditor's remuneration	600	600
Direct operating expenses arising from rental-earning investment properties	<u><u>1,017</u></u>	<u><u>1,047</u></u>

* 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 financial performance of the tenants pursuant to the relevant rental agreements.

6. FINANCE INCOME/(COSTS)

	For the six months ended 30 June	
	2022 <i>RMB'000</i> Unaudited	2021 <i>RMB'000</i> Unaudited
Finance income:		
Bank interest income	15,688	23,388
Gain on redemption of financial assets at fair value through profit or loss	1,342	2,468
Change of fair value of financial assets at fair value through profit or loss	169	394
Finance income on the net investments in the subleases	13,827	14,293
	<u>31,026</u>	<u>40,543</u>
Finance costs:		
Interest on lease liabilities	(176,678)	(211,141)
Interest on interest-bearing bank loans and other borrowings	(40,995)	(48,318)
	<u>(217,673)</u>	<u>(259,459)</u>
Finance costs, net	<u>(186,647)</u>	<u>(218,916)</u>

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 income tax expense is as follows:

	For the six months ended 30 June	
	2022 <i>RMB'000</i> Unaudited	2021 <i>RMB'000</i> Unaudited
Current income tax	34,122	89,815
Deferred tax	(27,295)	(62,872)
	<u>6,827</u>	<u>26,943</u>

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and 2021.

The calculations of basic and diluted (loss)/earnings per share are based on:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
(Loss)/Earnings		
(Loss)/Profit attributable to ordinary equity holders of the Company, used in the basic and diluted (loss)/earnings per share calculations	(197,521)	6,987

	For the six months ended 30 June	
	2022	2021
	'000	'000
Shares		
Weighted average number of ordinary shares outstanding during the period used in the basic and diluted (loss)/earnings per share calculations	2,634,532	2,634,532

9. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 1H2022 (1H2021: Nil).

10. TRADE RECEIVABLES

Trade receivables mainly arise from purchase by customers with credit cards 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, RMB305,266,000 (31 December 2021: RMB287,426,000) are with an interest rate range from 9% to 19% (31 December 2021: 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 30 June 2022 was amounts due from the Group's joint venture of nil (31 December 2021: RMB130,000) which was attributable to the consultancy fee income of the Group. These balances are unsecured and interest-free.

An ageing analysis of the trade receivables as at 30 June 2022 and 31 December 2021 based on the invoice date and net of loss allowance, is as follows:

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
Within 1 year	197,559	210,910
1 to 2 years	103,290	98,638
Over 2 years	74,479	65,095
	375,328	374,643

11. TRADE PAYABLES

An aging analysis of the trade payables is as follows:

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited
Within 3 months	626,714	814,602
4 to 12 months	41,638	15,765
Over 1 year	20,669	24,293
	689,021	854,660

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Board would like to present the interim results of the Group for the six months ended 30 June 2022 (the “Review Period”).

During the Review Period, the global economic environment remained characterised by a number of uncertainties and continued to be under pressure. The Group’s business has been adversely affected by the recurrence of 2019 novel coronavirus (“COVID-19”) pandemic in various cities in the PRC since early 2022.

During the Review Period, the operating activities of the Group’s stores were affected due to the new outbreak of the pandemic in Xi’an, Shanghai and Beijing. Under such circumstances, Shanghai has adopted a strategy of citywide static management with all residents staying indoors for more than two months, whilst Beijing has also strengthened its pandemic prevention and control measures. In addition, the sporadic outbreaks of COVID-19 in other cities make the prevention and control more difficult and complicated. To prevent the spread of the pandemic, local governments in China have implemented a number of measures in public areas, especially in restaurants, shopping centers, department stores and other business premises, such as restricting the flow of people, banning dine-in services, shortening business hours or temporarily closing outlets. Some of the Group’s stores were inevitably affected by the prevention and control measures. Coupled with the uncertainty of the development of the pandemic and the weak consumer market, the Group’s overall performance in the first half of the year was weaker than the same period last year.

The Group has taken several cost control measures, including lowering the rental and operating costs, and stimulating consumers’ spending by taking advantage of online platform promotions. At the same time, the Group has been actively applying for the government pandemic prevention allowance, grants and tax incentives to minimise the impact of the pandemic and other uncertainties.

In the first half of 2022, the Group adopted a proactive and prudent strategy in the face of the repeated virus outbreaks, continued to promote the development of diversified businesses, and diversification of income sources through the development of various operating models, so as to drive its sustainable development.

Financial Results

During the Review Period, the Group recorded gross sales proceeds of RMB5,002.3 million (including value-added tax); representing a decrease of 20.0% as compared with the same period last year, mainly due to the decrease in SSS which declined by 20.9% caused by the impact from COVID-19. During the Review Period, the operating profit of the Group was RMB2.7 million, representing a decrease of 98.9% as compared with the same period last year.

During the Review Period, the Group's Parkson Beauty store in Wenzhou City had commenced trial operations in January 2022. During this time, the Group has also expanded the operating area of its store in Datong City, Shanxi Province. As at 30 June 2022, the Group operated and managed 42 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.

Enrich Parkson's Portfolio

Facing the continuous challenges of market changes, the uncertainties in respect of the epidemic prevention and control and fierce competition, Parkson focused on expanding its retail portfolio with a flexible and diverse strategy. The Group is confident 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.

In July 2021, the Group's 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. As the Group's third store in Jiangxi Province, the project is expected to open in the second half of 2022. The Group believes that this project will play an important role in the development of the Group's business 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.

The Group also constantly monitors the development trend of the beauty market, and launches targeted development strategies for the beauty sector, aiming to attract the younger generation of consumers by combining with customized service experiences. In January 2022, the Group's beauty store in Wenzhou City, Zhejiang Province started trial operations, which are expected to 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 achieve diversified and healthy business development in the long run. In April 2022, the Group expanded the operating area of the store located in Datong City, Shanxi Province to enhance its business formats, meet different consumer demands and enrich the consumption experience of customers. The Changfeng store located in Taiyuan City, Shanxi Province was closed in May 2022 to improve the Group's resource utilisation efficiency.

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 adopted a business model that combines online and offline. In order to seize the growth opportunities of online retailing, the Group is stimulating consumption through online channels such as Parkson's official WeChat account and mobile shopping mini-programs. Meanwhile, the Group is enhancing measures to attract customers to visit Parkson stores to optimise their shopping experience.

Outlook and Future Plans

Although the macro economy is expected to face instability in the near future, the Group remains optimistic about the prospects of the overall retail market in China. With the continuous development of China's economy, the increase in urbanization rate and the improvement of people's living standards, consumption will remain a leading driver of China's economic growth in the future.

Looking ahead, the Group will actively review market trends and study customer needs, expand product categories in Parkson retail stores, and provide customers with a more diversified range of high-quality products to fully seize all opportunities. Meanwhile, the Group will actively look for business partners with strong reputation to diversify the Group's business portfolio and to be more sustainable, so as to strengthen Parkson's position as a leading fashion and lifestyle retailer in China.

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 and sustainable performance in a challenging environment and create long term value for shareholders.

FINANCIAL REVIEW

GSP and total operating revenues

During the first six months of 2022, the Group generated total GSP of RMB5,002.3 million (inclusive of value-added tax) or RMB4,478.8 million (net of value-added tax). Total GSP decrease by 20.0% was mainly due to decrease in total merchandise sales resulting from the decreased SSS. SSS decreased by 20.9% in 1H2022.

Total merchandise sales

The following table sets out a breakdown of our total merchandise sales through different channels for the periods indicated:

	For the six months ended 30 June				Period-on-period change (%)
	2022		2021		
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	
Concessionaire sales	2,872,126	71.3%	3,627,459	71.1%	(20.8%)
Direct sales	1,155,058	28.7%	1,474,991	28.9%	(21.7%)
	<u>4,027,184</u>	<u>100.0%</u>	<u>5,102,450</u>	<u>100.0%</u>	(21.1%)

Sales from concessionaire counters, which constituted 71.3% of our total merchandise sales in 1H2022, decreased by 20.8% compared to the same period of last year; direct sales decreased by RMB319.9 million or 21.7% from RMB1,475.0 million in 1H2021 to RMB1,155.1 million in 1H2022. The Group's sales in 1H2022 decreased across both concessionaire sales and direct sales compared to 1H2021 mainly due to recurrence of COVID-19 pandemic in various cities in PRC since early 2022.

Merchandise gross margin

The Group's merchandise gross margin, a combination of concessionaire commission rate and the direct sales margin, decreased from 14.4% in 1H2021 to 13.5% in 1H2022, primarily due to increase promotional activities to stimulate sales during the period.

Total operating revenues

Total operating revenues of the Group decreased by 19.8% to RMB1,993.4 million in 1H2022 as compared to RMB2,486.0 million in 1H2021. The decrease in total operating revenues was mainly due to the decrease in the revenue from contracts with customers. The revenue from contracts with customers consists of sale of goods from direct sales, commissions from concessionaire sales and consultancy and management service fees. In 1H2022, revenue from contracts with customers, which constituted 77.6% of our total operating revenues in 1H2022, decreased by RMB486.2 million or 23.9% compared to the same period of last year.

Operating Expenses

Purchase of goods and changes in inventories

Purchase of goods and changes in inventories represent the cost of sales for direct sales. Cost of sales decreased by RMB265.3 million or 21.0% from RMB1,263.6 million in 1H2021 to RMB998.3 million in 1H2022. The decrease was primarily due to decrease in procurement of goods from third party vendors, resulting from the decreased direct sales.

Staff costs

Staff costs decreased by RMB7.1 million or 2.5% from RMB288.0 million in 1H2021 to RMB280.9 million in 1H2022. The decrease was mainly due to closure of unprofitable business. On a same store basis, staff costs decreased by 1% in 1H2022.

Staff costs as a percentage of GSP increased from 5.2% in 1H2021 to 6.3% in 1H2022.

Depreciation and amortisation

Depreciation and amortisation decreased by 8.8% from RMB338.9 million in 1H2021 to RMB309.1 million in 1H2022. The decrease was primarily due to decrease in depreciation for the right-of-use assets of the property. In 1H2022, RMB207.7 million of depreciation expense on the right-of-use assets of property was charged to depreciation and amortisation compared to RMB233.7 million in 1H2021. On a same store basis, depreciation and amortisation decreased by 8.2% in 1H2022.

Depreciation and amortisation as a percentage of GSP increased from 6.1% in 1H2021 to 6.9% in 1H2022.

Rental expenses

Rental expenses of the Group was RMB12.8 million in 1H2022, a decrease of RMB33.5 million as compared to RMB46.3 million in 1H2021. In 1H2022, RMB26.8 million (1H2021: RMB0.1 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 decreased by 93.1% in 1H2022.

Rental expenses as a percentage of GSP decreased from 0.8% in 1H2021 to 0.3% in 1H2022.

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 29.1% from RMB301.7 million in 1H2021 to RMB389.6 million in 1H2022. The increase in other operating expenses mainly due to assets impairment of RMB65.0 million. On a same store basis, other operating expense increased by 36.5% in 1H2022.

Other operating expenses as a percentage of GSP increased from 5.4% in 1H2021 to 8.7% in 1H2022.

Profit from operations

The Group generated a profit from operations of RMB2.7 million in 1H2022, a decrease of RMB244.7 million or 98.9% compared to a profit of RMB247.4 million recorded in 1H2021.

Profit from operations as a percentage of GSP decreased from 4.4% in 1H2021 to 0.1% in 1H2022.

Finance income/(costs)

The Group incurred net finance costs of RMB186.6 million in 1H2022 which represented a decrease of RMB32.3 million or 14.7% compared to RMB218.9 million 1H2021. In 1H2022, RMB176.7 million of interest expense on the lease liability was charged to finance costs compared to RMB211.1 million in 1H2021; and RMB13.8 million of interest income on the net investments in sublease was recognised in finance income compared to RMB14.3 million in 1H2021 under IFRS 16.

Share of (losses)/profits of a joint venture

This is the share of (loss)/profit solely from Xinjiang Youhao Parkson Development Co., Ltd., a joint venture of the Group. The Group share of profits of RMB4.2 million in 1H2021 and share of losses of RMB1.2 million in 1H2022.

Share of (losses)/profits from associates

This is the share of results from the Group's associates. The Group share of profits from associates of RMB5.1 million in 1H2021 and share of losses from associates of RMB4.9 million in 1H2022. The decrease was mainly due to recurrence of COVID-19 in early 2022.

(Loss)/Profit before tax

Loss before tax is RMB190.0 million in 1H2022, compared to a profit before tax of RMB37.8 million in 1H2021. This loss before tax in 1H2022 was primarily due to recurrence of COVID-19 in early 2022.

Profit before tax as a percentage of GSP was 0.7% in 1H2021, as compared to loss before tax as a percentage of GSP was (4.2%) in 1H2022.

Income tax expense

Income tax expense decreased by 74.7% year-on-year to RMB6.8 million in 1H2022. This decrease was primarily due to decrease in earning for 1H2022.

(Loss)/Profit for the period

As a result of the foregoing, the Group recorded a loss for the period of RMB196.8 million in 1H2022 as compared to a profit of RMB10.8 million for the corresponding period of last year.

(Loss)/Profit attributable to owners of the Company

The Group recorded a loss attributable to owners of the Company amounted to RMB197.5 million in 1H2022 as compared to a profit of RMB7.0 million recorded for the corresponding period of last year.

Liquidity and financial resources

As at 30 June 2022, the Group had cash and cash equivalents of RMB1,749.3 million (31 December 2021: RMB925.2 million), time deposits of RMB135.8 million (31 December 2021: RMB735.6 million), financial assets at fair value through profit or loss of RMB86.3 million (31 December 2021: RMB90.6 million) and investments in principal guaranteed deposits of nil (31 December 2021: RMB0.5 million).

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

Total debt to total assets ratio of the Group was 20.2% as at 30 June 2022 (31 December 2021: 15.6%).

Current assets and net assets

The Group's current assets as at 30 June 2022 was RMB3,020.9 million. Net assets of the Group decreased by 7.6% to RMB3,749.9 million as at 30 June 2022 from RMB4,056.7 million as at 31 December 2021.

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 PRC. As at 30 June 2022, the balance of these products was nil.

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 PRC. As at 30 June 2022, the fair value of these products was RMB86.3 million, accounting for approximately 0.7% of the total assets of the Group.

Pledge of assets

As at 30 June 2022, the Group has pledged account receivables of RMB242.3 million, pledged buildings, investment properties and leasehold land with a net carrying amount of approximately RMB1,592.3 million, RMB526.5 million and RMB337.8 million, respectively, to secure the general bank loans. The Group has pledged unrealised receivables of RMB71.6 million which will be due within 48 months to secure the general interest-bearing bank loans. In addition, the Group has pledged deposits of RMB30.0 million held in designated bank accounts for performance guarantee.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2022, 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 six months ended 30 June 2022, the Company has fully complied with the Corporate Governance Code ("CG Code") 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").

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding Directors' securities transaction. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2022.

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 unaudited condensed consolidated financial statements for the six months ended 30 June 2022, 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.

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 2022 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 of Hong Kong Limited 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

18 August 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.