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 2019

HIGHLIGHTS

Total operating revenues for the period increased by RMB193.0 million or 8.1% to RMB2,587.8 million.

Gross profit margin for the period increased to 22.0%, as compared to 21.5% in 1H2018.

Operating profit for the period increased by RMB231.0 million or 183.2% to RMB357.1 million. Without the impact of IFRS 16, operating profit for the period would increase by RMB101.5 million or 80.5% to RMB227.6 million.

Profit attributable to owners of the parent was RMB23.9 million in 1H2019, as compared to RMB17.7 million in 1H2018.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the "Board") of Parkson Retail Group Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company, its subsidiaries, a joint venture and its associated companies (the "Group") for the six months ended 30 June 2019 ("1H2019") with comparative figures for the corresponding period in the year 2018 ("1H2018"). The unaudited consolidated interim results have been reviewed by the auditor, Ernst & Young and the audit committee of the Company (the "Audit Committee").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the six-month period ended 30 June 2019 *Unaudited* *RMB'000*	2018 *Unaudited* *RMB'000*
Revenues	4	2,338,585	2,158,458
Other operating revenues	4	249,234	236,347
Total operating revenues		2,587,819	2,394,805
Operating expenses			
Purchases of goods and changes in inventories		(1,137,822)	(952,142)
Staff costs		(341,049)	(339,737)
Depreciation and amortisation		(346,198)	(125,852)
Rental expenses		(46,891)	(454,641)
Other operating expenses		(358,759)	(396,356)
Total operating expenses		(2,230,719)	(2,268,728)
Profit from operations	5	357,100	126,077
Finance income	6	74,737	73,635
Finance costs	6	(330,153)	(97,142)
Share of profit of:			
A joint venture		7,434	8,533
Associates		3,107	3,034
Profit before income tax		112,225	114,137
Income tax expense	7	(76,142)	(80,913)
Profit for the period		36,083	33,224
Attributable to:			
Owners of the parent		23,886	17,650
Non-controlling interests		12,197	15,574
		36,083	33,224
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		RMB 0.009	RMB0.007
Diluted		RMB 0.009	RMB0.007

Note: Please refer to "Financial review – Impact of IFRS 16 on the interim condensed consolidated statement of profit or loss" for detailed discussion about the impact of the Group's adoption of IFRS 16.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six-month period ended 30 June	
	2019	**2018**
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
Profit for the period	36,083	33,224
Other comprehensive loss		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(6,174)	(35,496)
Other comprehensive loss for the period, net of tax	(6,174)	(35,496)
Total comprehensive income/(loss) for the period	29,909	(2,272)
Attributable to:		
Owners of the parent	17,712	(17,846)
Non-controlling interests	12,197	15,574
	29,909	(2,272)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2019** *Unaudited* *RMB'000*	**As at 31 December 2018** *Audited* *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		3,805,406	3,894,419
Investment properties		29,698	30,293
Prepaid land lease payments		387,841	394,497
Intangible assets		1,794,842	1,797,675
Investment in a joint venture		35,951	28,517
Investment in associates		37,899	34,792
Trade receivables	10	112,792	91,596
Time deposits		1,433,157	1,433,142
Right-of-use assets		3,606,634	-
Other assets		408,492	132,657
Deferred tax assets		190,144	186,576
Total non-current assets		11,842,856	8,024,164
CURRENT ASSETS			
Inventories		323,076	350,083
Trade receivables	10	230,308	290,183
Prepayment and other receivables		565,846	490,462
Investments in principal guaranteed deposits		290,800	664,780
Financial assets at fair value through profit or loss		521,536	544,593
Time deposits		675,140	683,863
Cash and cash equivalents		1,422,846	1,544,354
Total current assets		4,029,552	4,568,318
CURRENT LIABILITIES			
Trade payables	11	(1,073,499)	(1,354,766)
Customers' deposits, other payables and accruals		(597,847)	(719,515)
Contract liabilities		(683,218)	(782,389)
Interest-bearing bank loans		(235,143)	(321,646)
Lease liabilities		(449,409)	-
Tax payable		(57,690)	(59,991)
Total current liabilities		(3,096,806)	(3,238,307)
NET CURRENT ASSETS		932,746	1,330,011
TOTAL ASSETS LESS CURRENT LIABILITIES		12,775,602	9,354,175

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2019 *Unaudited* *RMB'000*	As at 31 December 2018 *Audited* *RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(3,711,702)	(3,721,241)
Lease liabilities	(4,137,976)	-
Long term payables	-	(727,970)
Deferred tax liabilities	(275,307)	(280,114)
Total non-current liabilities	(8,124,985)	(4,729,325)
NET ASSETS	4,650,617	4,624,850
EQUITY		
Equity attributable to owners of the parent		
Issued capital	55,477	55,477
Reserves	4,472,174	4,454,462
	4,527,651	4,509,939
Non-controlling interests	122,966	114,911
TOTAL EQUITY	4,650,617	4,624,850

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 in Room 1010, 10th 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 Group are the operation and management of a network of department stores in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Basis of preparation

The unaudited interim financial information for the six-month period ended 30 June 2019 (the "Interim Financial Information") has been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2018.

Impact of revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The Group applies, for the first time, International Financial Reporting Standards ("IFRS") 16 Leases. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretation apply for the first time in 2019, but do not have significant impact on the Interim Financial Information of the Group.

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, International Financial Reporting Interpretations Committee ("IFRIC") 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the

Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Applied a single discount rate to a portfolio of leases with reasonable similar characteristics

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) (Unaudited) RMB'000
Assets	
Increase in right-of-use assets	3,836,781
Increase in other assets	262,015
Decrease in prepayments and other receivables	(14,261)
Decrease in deferred tax assets	(3,331)
Increase in total assets	4,081,204
Liabilities	
Increase in lease liabilities	4,770,431
Decrease in customers' deposits, other payables and accruals	(33,407)
Decrease in long-term payables	(670,647)
Increase in total liability	4,066,377
Equity	14,827

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	(Unaudited) RMB'000
Operating lease commitments as at 31 December 2018	7,495,208
Weighted average incremental borrowing rate as at 1 January 2019	9.92%
Discounted operating lease commitments as at 1 January 2019	(2,730,121)
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(36,469)
Add: Payments for optional extension periods not recognised as at 31 December 2018	41,813
Lease liabilities as at 1 January 2019	4,770,431

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets	
	Land and Building	Lease Liabilities
	Unaudited	Unaudited
	RMB'000	RMB'000
As at 1 January 2019	3,836,781	4,770,431
Decrease	(2,196)	(4,003)
Depreciation charge	(227,951)	-
Interest expense	-	215,990
Payments	-	(395,033)
As at 30 June 2019	3,606,634	4,587,385

3. GROSS SALES PROCEEDS

	For the six-month period ended 30 June	
	2019	**2018**
	Unaudited	Unaudited
	RMB'000	RMB'000
Sales of goods – direct sales	1,369,587	1,116,796
Gross revenue from concessionaire sales	4,760,521	5,150,358
Total merchandise sales	6,130,108	6,267,154
Others (including consultancy and management service fees, credit service income, gross rental income and other operating revenues)	465,611	438,585
Total gross sales proceeds	6,595,719	6,705,739
Total gross sales proceeds (inclusive of value-added tax)	7,494,919	7,752,517

4. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenues

	For the six-month period ended 30 June	
	2019	**2018**
	Unaudited	Unaudited
	RMB'000	RMB'000
Revenue from contracts with customers		
Sales of goods – direct sales	1,369,587	1,116,796
Commissions from concessionaire sales	752,621	839,424
Consultancy and management service fees	5,312	3,993
	2,127,520	1,960,213
Revenue from other sources		
Gross rental income	182,780	198,245
Credit service income	28,285	-
	211,065	198,245
	2,338,585	2,158,458

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 service income is recognised when the relevant services are rendered.

Other operating revenues

	Note	For the six-month period ended 30 June 2019 Unaudited RMB'000	2018 Unaudited RMB'000
Promotion income		34,837	39,942
Administration and credit card handling fees		76,288	68,174
Government grants	(i)	4,994	4,478
Other income		133,115	123,753
		249,234	236,347

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 the consumer financing business does not have a material impact on the Group's results based on a measure of revenues, 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 FROM OPERATIONS

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

	For the six-month period ended 30 June	
	2019	**2018**
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of inventories recognised as expenses	1,137,822	952,142
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	252,156	256,295
Pension scheme contributions	30,585	32,208
Social welfare and other costs	54,664	46,004
	337,405	334,507
Directors' remuneration	3,644	5,230
	341,049	339,737
Depreciation and amortisation	346,198	125,852
Reversal of impairment of inventories	-	(2,531)
Impairment of receivables	3,863	-
Reversal of impairment of other receivables	(604)	(3,658)
Rental expenses in respect of leased properties:		
Minimum lease payments *	2,276	390,896
Contingent lease payments **	44,615	63,745
	46,891	454,641
Loss on disposal of property, plant and equipment	928	10,256
Auditors' remuneration	614	614
Gross rental income in respect of investment properties	(2,215)	(2,857)
Lease income in respect of sublease of properties under operating lease:		
Minimum lease payments *	(123,153)	(140,792)
Contingent lease payments **	(57,412)	(54,596)
	(180,565)	(195,388)
Total gross rental income	(182,780)	(198,245)
Direct operating expenses arising on rental-earning investment properties	503	770

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

6. FINANCE INCOME/COSTS

	For the six-month period ended 30 June	
	2019	**2018**
	Unaudited	Unaudited
	RMB'000	RMB'000
Finance income:		
Bank interest income	51,521	58,242
Gain on redemption of financial assets at fair value through profit or loss	3,018	9,068
Change of fair value of financial assets at fair value through profit or loss	5,680	6,325
Interest income on the net investments in sublease	14,518	-
	74,737	73,635
Finance costs:		
Interest expense on lease liability	(215,990)	-
Interest-bearing bank loans	(114,163)	(64,872)
Bonds	-	(32,270)
	(330,153)	(97,142)
Finance costs, net	(255,416)	(23,507)

7. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate.

An analysis of the provision for tax is as follows:

	For the six-month period ended 30 June	
	2019	**2018**
	Unaudited	Unaudited
	RMB'000	RMB'000
Current income tax	84,517	104,135
Deferred income tax	(8,375)	(23,222)
	76,142	80,913

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount for 1H2019 is based on the profit for the period attributable to ordinary equity holders of the parent of approximately RMB23.9 million, and the weighted average number of 2,634,532,250 ordinary shares in issue during the period.

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

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

The Group had no potentially dilutive ordinary shares in issue during the six-month period ended 30 June 2019 and 2018.

9. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 1H2019 (1H2018: Nil).

10. TRADE RECEIVABLES

The Group's trading terms of department stores and credit services with its customers are mainly credit card payments and loan receivables, respectively. The Group normally allows a credit period of not more than 30 days from the end of each financial year regarding its credit card receivables and loan receivables. 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. For trade receivables of department stores, the Group does not hold any collateral or other credit enhancements over its trade receivable balances, which are non-interest-bearing.

An ageing analysis of the trade receivables as at 30 June 2019 and 31 December 2018 based on the invoice date and net of loss allowance, is as follows:

	30 June 2019	**31 December 2018**
	Unaudited	Audited
	RMB'000	RMB'000
Within 1 year	230,308	290,183
1 to 2 years	69,597	68,778
Over 2 years	43,195	22,818
	343,100	381,779

Included in the balance were trade receivables from a joint venture of RMB199,000 (31 December 2018: RMB195,000) and an associate of RMB350,000 (31 December 2018: RMB350,000) which were attributable to the consultancy income of the Group. These balances were unsecured and interest-free.

11. TRADE PAYABLES

An aging analysis of the trade payables is as follows:

	30 June 2019	**31 December 2018**
	Unaudited	Audited
	RMB'000	RMB'000
Within 3 months	1,011,504	1,281,771
4 to 12 months	36,992	44,346
Over 1 year	25,003	28,649
	1,073,499	1,354,766

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Board delighted to report that the Group achieved stable performance in the first six months of 2019. This is the result of our dedication to diversify our retail formats and enhanced product offerings aimed at reinforcing our position as a leading lifestyle retailer in China.

Financial Results

During the first six months of 2019, the Chinese retail market maintained stable growth despite continued trade tensions between China and the United States. China's Gross Domestic Product recorded a 6.3% growth in the period, while inflation was 2.2%. Although industrial output slowed to 6.0%, retail sales growth was 8.4% in the first half of this year, ahead of market expectations. The Group believes that the trend of consumption upgrade will continue to prevail. Consumption is expected to remain the main driver of China's economic growth. China's consumer market is expected to maintain a positive outlook regardless of the macroeconomic and geopolitical challenges.

In the 1H2019, the Group recorded total gross sales proceeds ("GSP") of RMB7,494.9 million inclusive of value added tax, a decline of 3.3% compared with the same period of last year, which was mainly due to closure of underperforming department stores. Same store sales ("SSS") in 1H2019 decreased by 2.2%, reflecting the continued slowdown of the Chinese economy and the diversion of customer traffic. The Group's overall gross profit margin increased to 22.0% from 21.5% in the same period last year, profit from operations increased by 183.2% year-on-year to RMB357.1 million.

Continued expansion of retail network

The rising consumer demand for quality products and service in the past several years has bolstered innovation, which, in turn, has facilitated further development in the retail industry. In order to stand out in the department store industry, one has to be innovative and dynamic. In the first half year of 2019, Parkson continued diversifying its retail formats. This strategy covers a range of areas, including the expansion of product categories such as more international cosmetic brands, sports and apparel brands on top of traditional products, as well as upgrading traditional supermarkets into gourmet supermarkets in department stores to cater for rapid changing of consumer demands. We also work on the interconnectedness between our businesses and further upgrading our product offering. The Group believes that these measures will translate into a stable income in the future.

Known for their quality products and services, Parkson's food and beverage ("F&B") brands also continue expanding their footprint. Thus, Hogan Bakery is expected to open a franchise store in Fuzhou in the third quarter of 2019. Together with "雞薈" (Ji Hui) restaurant brand, Parkson's F&B continue to develop and launch more new products. One of our main objectives is to provide a full spectrum of consumer experience, and that is why we are committed to integrating the retail and catering businesses so that our customers can enjoy a quality dining experience while shopping.

With consumption upgrading and demand for premium domestic and imported products rising across second-tier and third-tier cities, we plan to open supermarkets in our department stores in more places. In April 2019, we opened a new supermarket in Mianyang and expect to open another new supermarket in the same city in the third quarter.

Our fashion and beauty segment performed well since launched last year. Our flagship "Parkson Beauty" store concept operating in three retail outlets in Changsha, Qingdao and Nanning, has been well received by key customer groups and has already become a leading fashion brand. The fashion and beauty segment will continue proactively expanding its collaboration with a range of different brands. In the first half year of 2019, Parkson and Kiehl's, a cosmetic brand, jointly launched a marketing activity to drive sales growth in cosmetic segment.

The Group is actively looking for opportunities to expand its portfolio further. In June 2019, the Group won the tender and entered into a tenancy agreement with Nanchang Urban Rail Group for a property above Bayi Guan Station of Nanchang Rail Transit Line 1, which the Group intends to use for a new department store. With a total gross area of 42,900 square meters, the new department store is located on the prosperous Zhongshan Road in the old city of Nanchang above the intersection of two subway lines and is just across the road from Parkson Department Store (Zhongshan Road). The property is currently being prepared for the new department store, which is expected to open at the end of 2019. Both department stores, the new one and Parkson Department Store (Zhongshan Road), will work closely to create synergies, which, in turn, will enable the Group to have greater flexibility in leveraging its diversified retail formats and further strengthening Parkson's position in China as a leading lifestyle retailer.

To further expand our network of department stores, our plan is to open a department store in Tongren City and a department store-shopping mall complex in Datong City by the end of 2019.

In the first half year of 2019, two stores were closed due to their underperformance. As at 30 June 2019, the Group operated and managed 41 department stores (including concept stores "Parkson Beauty"), 2 Parkson Newcore City Malls, a shopping mall and a supermarket in 30 major cities across China.

Solid omni-channel marketing offering optimised customer experience

With the technology and innovation in the retail landscape accelerating, retailers across Asia have turned their focus to e-commerce to further boost sales growth. Over the past two years, the Group launched a number of initiatives to stimulate sales and tap into rising online and offline sales opportunities.

We also channelled our marketing efforts to build an omni-channel community online and drive visitor traffic at our stores using our online and social media channels including Parkson's official WeChat account and Parkson Plaza, our mobile shopping app. In addition, we will blend social media elements into marketing our business lines, thus, enhancing shopping experience.

OUTLOOK

Looking ahead, we will continue executing our strategy aimed at diversifying retail formats, upgrading brand and product categories, including the fashion and beauty segment led by Parkson Beauty and our F&B businesses such as Hogan Bakery, as well as identifying optimal locations to expand our department store and supermarket network. Furthermore, we will also focus on further developing our omni-channel marketing, as well as creating a strong online community for customers through social media networks, VIP programmes and personalised customer service.

We believe that the Group is well positioned to provide the best service in the Chinese retail market and demonstrate solid performance amid challenging retail market environment, while creating long term value to our stakeholders.

FINANCIAL REVIEW

Total gross sales proceeds and operating revenues

During the first six months of 2019, the Group generated total GSP of RMB7,494.9 million (inclusive of value-added tax) or RMB6,595.7 million (net of value-added tax). Total GSP decline of 3.3% was primarily due to closure of underperforming department stores in 1H2019. SSS decreased by 2.2% in 1H2019. The decrease in SSS was primarily due to the continued slowdown in the PRC economy, as well as the impact of diversion of customer traffic.

Total merchandise sales

	For the six-month period ended 30 June				**Year-on-year change (%)**
	2019		**2018**		
	RMB'000	% of total	RMB'000	% of total	
Concessionaire sales	4,760,521	77.7%	5,150,358	82.2%	(7.6%)
Direct sales	1,369,587	22.3%	1,116,796	17.8%	22.6%
	6,130,108	100.0%	6,267,154	100.0%	(2.2%)

Sales from concessionaire counters constituted a majority of our merchandise sales in 1H2019 and in 1H2018. As a percentage of our total merchandise sales, it decreased in 1H2019 compared to 1H2018, primarily due to the growth in sales from our Cosmetics & Accessories category in direct sales, which was mainly attributable to our robust performance of beauty segment.

Merchandise sales mix

	For the six-month period ended 30 June	
	2019	**2018**
	% of total merchandise sales	% of total merchandise sales
Cosmetics & Accessories	51.7%	47.7%
Fashion & Apparel	40.5%	43.6%
Groceries & Perishables	5.2%	5.8%
Household & Electrical	2.6%	2.9%
	100.0%	100.0%

Sales in 1H2019 decreased across each of our categories except for Cosmetics & Accessories compared to 1H2018 mainly due to the decline in Same Store Sales as well as the closure of underperforming stores. During 1H2019 and 1H2018, a majority of our merchandise sales was derived from sales under the Cosmetics & Accessories and Fashion & Apparel categories. However, sales from Cosmetics & Accessories displayed faster growth than that from other categories in 1H2019 mainly attributable to the opening of standalone concept store of Parkson Beauty in May and September 2018 and our efforts to enhance market awareness of our beauty segment.

Merchandise gross margin

The Group's merchandise gross margin, a combination of concessionaire commission rate and the direct sales margin, increased by 0.1% to 16.1% in 1H2019 compared to the same period last year primarily due to change in merchandise sales mix and closure of underperforming stores.

Total operating revenues

Total operating revenues of the Group increased by RMB193.0 million or 8.1% to RMB2,587.8 million, which was primarily attributable to (i) the strong sales performance of Cosmetics & Accessories category in direct sales and (ii) the credit service income generated by Parkson Credit Sdn Bhd which was acquired by the Group in October 2018. The increase was partially offset by the decrease in commissions from concessionaire sales due to closure of unprofitable stores and rental income due to the impact of adoption of IFRS 16.

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 increased by 19.5% from RMB952.1 million in 1H2018 to RMB1,137.8 million in 1H2019. The increase was primarily attributable to an increase in our procurement of goods from third party vendors to support our increased direct sales.

Staff costs

Staff costs increased by RMB1.3 million or 0.4% to RMB341.0 million in 1H2019. The increase was mainly due to the increase in staff costs incurred by Parkson Beauty, PLAYUP and credit service and an increase in base salaries of our employees. This increase was partially offset by the closure of unprofitable stores in 1H2019. On a same store basis, staff costs increased by 2.4%.

Staff costs as a percentage of GSP increased from 5.1% in 1H2018 to 5.2% in 1H2019.

Depreciation and amortisation

Depreciation and amortisation increased by RMB220.3 million or 175.1% to RMB346.2 million in 1H2019. The significant increase was largely attributable to the impact of adoption of IFRS 16. In 1H2019, RMB228.0 million of depreciation expense on the right-of-use assets was charged to depreciation and amortisation.

Without the impact of IFRS 16, depreciation and amortisation decreased by RMB7.6 million or 6.0% to RMB118.2 million in 1H2019. The decrease was primarily attributable to savings from closure of stores and renovation from old stores that has been fully depreciated in 1H2019. On a same store basis, depreciation expense decreased by 14.1%, 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.

Without the impact of IFRS 16，depreciation and amortisation as a percentage of GSP decreased from 1.9% in 1H2018 to 1.8% in 1H2019.

Rental expenses

Rental expenses decreased by RMB407.8 million or 89.7% to RMB46.9 million in 1H2019. The significant decrease was primarily attributable to the impact of adoption of IFRS 16. Under IFRS 16, rental expenses are replaced with depreciation expense on the right-of-use assets and interest expense on the lease liability.

Without the impact of IFRS 16, rental expenses decreased by RMB43.3 million or 9.5% to RMB411.4 million in 1H2019. The decrease was mainly due to (i) lease term renegotiation of some stores within the Group; and (ii) saving from closure of underperforming stores in 1H2019. On a same store basis, rental expenses decreased by 2.8%.

Without the impact of IFRS 16, rental expenses as a percentage of GSP decreased from 6.8% in 1H2018 to 6.2% in 1H2019.

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, decreased by RMB37.6 million or 9.5% to RMB358.8 million as a result of management's cost rationalisation efforts. On a same store basis, other operating expense decreased by 6.0% during the period.

Other operating expenses as a percentage of GSP decreased from 5.9% in 1H2018 to 5.4% in 1H2019.

Profit from operations

The Group posted profit from operations of RMB357.1 million in 1H2019, an increase of RMB231.0 million or 183.2% compared to RMB126.1 million recorded in 1H2018.

Profit from operations as a percentage of GSP increased from 1.9% in 1H2018 to 5.4% in 1H2019.

Finance income/costs

The Group incurred net finance costs of RMB255.4 million in 1H2019 which represented an increase of RMB231.9 million compared to 1H2018. In 1H2019, RMB216.0 million of interest expense on the lease liability was charged to finance costs; and RMB14.5 million of interest income on the net investments in sublease was recognised in finance income under IFRS 16.

Without the impact of IFRS 16, net finance costs increased by RMB30.4 million or 129.5% to RMB53.9 million in 1H2019. The increase in net finance costs was mainly due to the higher interest rate charged for the bank loans compared with bonds.

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 from a joint venture decreased from RMB8.5 million in 1H2018 to RMB7.4 million in 1H2019. This decrease was primarily attributable to the negative impact on local consumption by the slowdown in the PRC economy.

Share of profit from associates

This is the share of results from the Group's associated companies. The share of profit from associates increased from RMB3.0 million in 1H2018 to RMB3.1 million in 1H2019. This increase was primarily attributable to the profit from Parkson Newcore which entered into the stable development period, largely offset by the negative impact of IFRS 16 of RMB4.6 million.

Profit before income tax ("PBT")

PBT decreased by 1.7% from RMB114.1 million in 1H2018 to RMB112.2 million in 1H2019. This decrease was primarily attributable to the adoption of IFRS 16. The combination of straight-line depreciation of the right-of-use assets and effective interest rate method applied on the lease liability results in a higher total charge to profit or loss in the initial years of the lease, and decreasing expense during the latter part of the lease term. The negative impact of IFRS 16 on the profit before income tax for the six-month period ended 30 June 2019 was RMB76.8 million.

Without the impact of IFRS 16, our PBT increased by RMB74.9 million or 65.6% to RMB189.1 million in 1H2019. The increase was primarily attributable to our increased revenue and closure of unprofitable department stores and a decrease in our operating expenses in 1H2019.

Without the impact of IFRS 16, PBT as a percentage of GSP increased from 1.7% in 1H2018 to 2.9% in 1H2019.

Income tax expense

The Group's income tax expenses decreased by 5.9% from RMB80.9 million in 1H2018 to RMB76.1 in 1H2019 million primarily attributable to a decrease in our profit before income tax in 1H2019.

Profit for the period

As a result of the foregoing, our profit for the period increased by RMB2.9 million or 8.6% to RMB36.1 million in 1H2019.

Profit attributable to owners of the parent

Profit attributable to owners of the parent increased by 35.0% from 17.7 million in 1H2018 to RMB23.9 million in 1H2019.

Impact of IFRS 16 on the interim condensed consolidated statement of profit or loss

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	For the six-month period ended 30 June 2019 (Unaudited)		
	Results without IFRS 16	**Impact of IFRS 16**	**Results as reported**
	RMB'000	RMB'000	RMB'000
Revenues	2,366,442	(27,857)	2,338,585
Other operating revenues	231,298	17,936	249,234
Depreciation and amortisation	(118,247)	(227,951)	(346,198)
Rental expenses	(411,361)	364,470	(46,891)
Other operating expenses	(361,644)	2,885	(358,759)
Profit from operations	227,617	129,483	357,100
Finance income	60,219	14,518	74,737
Finance costs	(114,163)	(215,990)	(330,153)
Share of profit of a joint venture	7,710	(276)	7,434
Share of profit of associates	7,669	(4,562)	3,107
Profit before income tax	189,052	(76,827)	112,225
Income tax expense	(89,168)	13,026	(76,142)
Profit for the period	99,884	(63,801)	36,083
Attributable to:			
Owners of the parent	87,124	(63,238)	23,886
Non-controlling interests	12,760	(563)	12,197
	99,884	(63,801)	36,083

Liquidity and financial resources

As at 30 June 2019, the cash and cash equivalents and deposits with licensed banks of the Group (aggregate of financial assets at fair value through profit or loss, investments in principal guaranteed deposits, time deposits and cash and bank equivalents deposited with licensed banks) stood at RMB4,343.5 million, representing a reduction of RMB527.2 million or 10.8% from the balance of RMB4,870.7 million recorded as at 31 December 2018. The decrease was mainly due to (i) net cash inflow from operating activities amounting to RMB93.3 million; (ii) net cash inflow from investing activities amounting to RMB13.7 million; and (iii) net cash outflow used in financing activities amounting to RMB634.2 million.

Total debt to total asset ratio of the Group was 24.9% as at 30 June 2019.

Current assets and net assets

The Group's current assets as at 30 June 2019 were approximately RMB4,029.6 million. Net assets of the Group increased by 0.6% to RMB4,650.6 million as at 30 June 2019 from RMB4,624.9 million as at 31 December 2018.

Information on the Financial Products

Investment in principal guaranteed deposits refer to the principal preservation type wealth management products subscribed by the Group from licensed banks operate in China. As at 30 June 2019, the balance of these products was RMB290.8 million, accounting for approximately 1.8% of the total assets of the Group.

Financial assets at fair value through profit or loss refer to the non-principal preservation type wealth management products subscribed by the Group from licensed banks operate in China. As at 30 June 2019, the fair value of these products was RMB521.5 million, accounting for approximately 3.3% of the total assets of the Group.

Pledge of assets

As at 30 June 2019, the Group has pledged deposits of RMB1,813.9 million, pledged buildings, investment properties and prepaid land lease payment with a net carrying amount of approximately RMB1,869.7 million, RMB3.0 million and RMB376.3 million respectively to secure general bank loans. Other than the aforesaid, no other assets are pledged to any bank or lender.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

In the opinion of the Board, the Company had fully complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2019.

MODEL CODE FOR DIRECTORS' 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") as its code of conduct regarding Directors' securities transaction. Having made specific enquiry to all Directors, all Directors have confirmed that they complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee (the "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 Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019, including the accounting principles and policies adopted by the Group. The Committee comprises the non-executive director and three independent non-executive directors of the Company, one of whom has appropriate professional qualification and experience in financial matters as required by the Listing Rules.

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 2019 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

22 August 2019

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