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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 2020

HIGHLIGHTS

Total operating revenues for the period amounted to RMB1,963.9 million, representing a decrease of 24.1% as compared to RMB2,587.8 million for the corresponding period of last year.

Same store sales ("SSS") for the period decreased by 31.4%.

Total Gross Sales Proceeds ("GSP") inclusive of value-added tax for the period were RMB4,896.3 million, representing a year-on-year decrease of 34.7%.

Profit from operations for the period was RMB97.2 million, representing a decrease of RMB259.9 million or 72.8% as compared to RMB357.1 million for the corresponding period of last year.

Loss attributable to owners of the parent for the period was RMB189.4 million, as compared to a profit of RMB23.9 million recorded for the corresponding period of last year.

The changes in the above financial indicators compared with the corresponding period of last year were reflections of the challenges encountered by most department store businesses as a result of the outbreak of the Coronavirus Disease ("COVID-19") in early 2020.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 ("1H2020") with comparative figures for the corresponding period in the year 2019 ("1H2019"). 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	Quarter Ended 31 March 2020	Quarter Ended 30 June 2020	For the six-month period ended 30 June 2020	2019
		Unaudited	*Unaudited*	*Unaudited*	*Unaudited*
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	4	808,764	979,323	1,788,087	2,338,585
Other operating revenues	4	72,291	103,475	175,766	249,234
Total operating revenues		881,055	1,082,798	1,963,853	2,587,819
Operating expenses					
Purchases of goods and changes in inventories		(462,779)	(543,540)	(1,006,319)	(1,137,822)
Staff costs		(135,949)	(125,782)	(261,731)	(341,049)
Depreciation and amortisation		(170,505)	(173,453)	(343,958)	(346,198)
Rental credit/(expenses)		(14,495)	34,485	19,990	(46,891)
Other operating expenses		(129,168)	(145,450)	(274,618)	(358,759)
Total operating expenses		(912,896)	(953,740)	(1,866,636)	(2,230,719)
Profit from operations		(31,841)	129,058	97,217	357,100
Finance income	6	33,228	22,735	55,963	74,737
Finance costs	6	(155,780)	(144,759)	(300,539)	(330,153)
Share of profits/(losses) of:					
A joint venture		321	2,152	2,473	7,434
Associates		(3,261)	1,505	(1,756)	3,107
(Loss)/profit before tax	5	(157,333)	10,691	(146,642)	112,225
Income tax expense	7	12,523	(49,543)	(37,020)	(76,142)
(Loss)/profit for the period		(144,810)	(38,852)	(183,662)	36,083
Attributable to:					
Owners of the parent		(146,695)	(42,754)	(189,449)	23,886
Non-controlling interests		1,885	3,902	5,787	12,197
		(144,810)	(38,852)	(183,662)	36,083
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8				
Basic		RMB (0.056)	RMB (0.016)	RMB (0.072)	RMB 0.009
Diluted		RMB (0.056)	RMB (0.016)	RMB (0.072)	RMB 0.009

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six-month period ended 30 June	
	2020	**2019**
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
(Loss)/profit for the period	(183,662)	36,083
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(69,945)	(6,174)
Other comprehensive income for the period, net of tax	(69,945)	(6,174)
Total comprehensive income for the period	(253,607)	29,909
Attributable to:		
Owners of the parent	(259,394)	17,712
Non-controlling interests	5,787	12,197
	(253,607)	29,909

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2020** *Unaudited* *RMB'000*	**As at 31 December 2019** *Audited* *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		3,350,637	3,449,090
Investment properties		349,077	303,292
Right-of-use assets		3,528,720	3,248,189
Prepaid land lease payments		374,529	381,185
Intangible assets		1,789,339	1,792,053
Investment in a joint venture		29,407	26,934
Investment in associates		40,013	41,769
Trade receivables	10	118,830	78,482
Other assets		392,013	433,331
Time deposits		623,600	787,899
Deferred tax assets		255,700	227,586
Total non-current assets		10,851,865	10,769,810
CURRENT ASSETS			
Inventories		374,203	384,041
Trade receivables	10	177,322	265,536
Prepayment and other receivables		449,123	420,812
Financial assets at fair value through profit or loss		236,091	250,761
Investments in principal guaranteed deposits		40,950	250,050
Time deposits		599,432	939,482
Cash and cash equivalents		1,556,375	2,265,508
Total current assets		3,433,496	4,776,190
CURRENT LIABILITIES			
Trade payables	11	(857,100)	(1,136,563)
Other payables and accruals		(556,184)	(637,769)
Contract liabilities		(624,961)	(685,792)
Interest-bearing bank loans		(663,326)	(1,011,588)
Lease liabilities		(525,008)	(474,677)
Tax payable		(44,754)	(60,654)
Total current liabilities		(3,271,333)	(4,007,043)
NET CURRENT ASSETS		162,163	769,147
TOTAL ASSETS LESS CURRENT LIABILITIES		11,014,028	11,538,957

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020 *Unaudited* *RMB'000*	**As at 31 December 2019** *Audited* *RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(2,455,219)	(3,013,883)
Lease liabilities	(4,181,655)	(3,865,554)
Deferred tax liabilities	(287,349)	(313,187)
Total non-current liabilities	(6,924,223)	(7,192,624)
NET ASSETS	4,089,805	4,346,333
EQUITY		
Equity attributable to owners of the parent		
Issued capital	55,477	55,477
Reserves	3,915,790	4,175,184
	3,971,267	4,230,661
Non-controlling interests	118,538	115,672
TOTAL EQUITY	4,089,805	4,346,333

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 mainly in the People's Republic of China (the "PRC").

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 2020 (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 ("IASB").

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 annual consolidated financial statements for the year ended 31 December 2019.

Changes in accounting policies

Amendment to IFRS 16 *Covid-19-Related Rent Concessions* (early adopted)

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB50,560,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

3. GROSS SALES PROCEEDS

	For the six-month period ended 30 June	
	2020	**2019**
	Unaudited	Unaudited
	RMB'000	RMB'000
Sale of goods from direct sales	1,181,711	1,369,587
Gross revenue from concessionaire sales	2,844,726	4,760,521
Total merchandise sales	4,026,437	6,130,108
Others (including consultancy and management service fees, gross rental income, credit services income and other operating revenues)	346,435	465,611
Total gross sales proceeds	4,372,872	6,595,719
Total gross sales proceeds (inclusive of value-added tax)	4,896,309	7,494,919

4. REVENUE, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenue

	For the six-month period ended 30 June	
	2020	**2019**
	Unaudited	Unaudited
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of goods from direct sales	1,181,711	1,369,587
Commissions from concessionaire sales	435,707	752,621
Consultancy and management service fees	6,278	5,312
	1,623,696	2,127,520
Revenue from other sources		
Gross rental income	136,786	182,780
Credit services	27,605	28,285
	164,391	211,065
	1,788,087	2,338,585

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-month period ended 30 June	
		2020	**2019**
		Unaudited	Unaudited
	Note	RMB'000	RMB'000
Promotion income		25,608	34,837
Administration and credit card handling fees		54,536	76,288
Electricity and water fees		39,797	62,684
Government grants	(i)	11,562	4,994
Other income		44,263	70,431
		175,766	249,234

Note:

(i) Various local government grants have been granted to reward the Group for its contributions to the local economy and relieve burden for its operational challenges caused by COVID-19. 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 in Malaysia, the Group has a single operating and reportable segment – 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 located mainly 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, there is no need to treat it as a separate operating and reportable segment to disclose.

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six-month period ended 30 June	
	2020	**2019**
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of inventories recognised as expenses	1,006,319	1,137,822
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	212,557	252,156
Pension scheme contributions	7,802	30,585
Social welfare and other costs	38,018	54,664
	258,377	337,405
Directors' remuneration	3,354	3,644
	261,731	341,049
Depreciation and amortisation	343,958	346,198
Impairment of receivables	6,633	3,863
Impairment of other receivables	1,125	(604)
Impairment of prepayments	7,042	-
Foreign exchange differences, net	11,335	(1,668)
Lease payments not included in the measurement of lease liabilities:		
Minimum lease payments *	3,651	2,276
Contingent rents **	26,919	44,615
Rent concessions	(50,560)	-
	(19,990)	46,891
Loss on disposal of property, plant and equipment	1,545	928
Auditors' remuneration	614	614
Gross rental income in respect of investment properties	(502)	(2,215)
Lease income in respect of sublease of properties under operating lease:		
Minimum lease payments *	(89,226)	(123,153)
Contingent lease payments **	(47,058)	(57,412)
	(136,284)	(180,565)
Total gross rental income	(136,786)	(182,780)
Direct operating expenses arising on rental-earning investment properties	288	503

* 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	
	2020	**2019**
	Unaudited	Unaudited
	RMB'000	RMB'000
Finance income:		
Bank interest income	39,553	51,521
Interest income on the net investments in the subleases	13,440	14,518
Gain on redemption of financial assets at fair value through profit or loss	2,446	3,018
Change of fair value of financial assets at fair value through profit or loss	524	5,680
	55,963	74,737
Finance costs:		
Interest expense on lease liability	(213,977)	(215,990)
Interest on interest-bearing bank loans and other borrowings	(86,562)	(114,163)
	(300,539)	(330,153)
Finance costs, net	(244,576)	(255,416)

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-month period ended 30 June	
	2020	**2019**
	Unaudited	Unaudited
	RMB'000	RMB'000
Current income tax	90,972	84,517
Deferred income tax	(53,952)	(8,375)
	37,020	76,142

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

The calculation of basic loss per share amount for 1H2020 is based on the loss for the period attributable to ordinary equity holders of the parent of approximately RMB189.4 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 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 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 six-month periods ended 30 June 2020 and 2019.

9. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 1H2020 (1H2019: Nil).

10. TRADE RECEIVABLES

Trade receivables of the Group 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. Among the balance, RMB248,112,000 are with an interest rate range from 9% to 19% depending on the payment term of loan receivables, while others are interest-free.

Included in the balance as at 30 June 2020 were trade receivables from the joint venture and an associate of approximately RMB156,000 (31 December 2019: RMB194,000) and nil (31 December 2019: RMB350,000), respectively, which are 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 2020 and 31 December 2019 based on the invoice date and net of loss allowance, is as follows:

	30 June 2020	**31 December 2019**
	Unaudited	Audited
	RMB'000	RMB'000
Within 1 year	177,322	265,536
1 to 2 years	78,535	64,537
Over 2 years	40,295	13,945
	296,152	344,018

11. TRADE PAYABLES

An aging analysis of the trade payables is as follows:

	30 June 2020	**31 December 2019**
	Unaudited	Audited
	RMB'000	RMB'000
Within 3 months	771,173	1,059,831
4 to 12 months	57,505	48,663
Over 1 year	28,422	28,069
	857,100	1,136,563

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Board is delighted to present the interim results of the Group for the six months ended 30 June 2020 ("Review Period").

During the Review Period, the Global market and China's economy have continued to face a number of challenges due to the uncertainties surrounded the world economic environment. China's Gross Domestic Product recorded a 1.6% decline in the first six months of 2020. In addition, the outbreak of the COVID-19 worldwide at the beginning of the year has created serious impacts on China and the global economies. According to the recent statistics released by the National Development and Reform Commission, China's total retail sales of consumer goods declined by 11.4% in the first six months of 2020.

During the epidemic, to prevent the spread of the pandemic, local governments of many cities in China have implemented strict measures on public areas, especially for restaurants and department stores, such as restriction on customer traffic and shortening the opening hours. Some department stores of Group have also been affected by such measures inevitably, making the Group's overall business performance in the first half of the year less well than that of the same period last year. To reduce the impacts from COVID-19, the Group has adopted several cost control measures during the Review Period, such as lowering the rental and operating costs, and stimulating consumers' spending by taking advantage of the online platform promotions.

Financial Results

During the Review Period, the Group recorded total GSP of RMB4,896.3 million inclusive of value added tax, representing a decline of 34.7% as compared with the same period of last year, which was mainly due to the sales decline in SSS. SSS in the Review Period decreased by 31.4%, reflecting the continued slowdown of Chinese economy and the impact from COVID-19. In the Review Period, the Group's profit from operations decreased by 72.8% year-on-year to RMB97.2 million.

For the first six months of 2020, although the Group has been facing many challenges including the downward pressure from China's economy and the impact of COVID-19, the Group still maintains a positive outlook for the retail industry. Amid the risks, the retail market demonstrated remarkable resilience compared with the other sectors. The Group adopted an active and cautious strategy and continued to diversify its business development by exploring various operation models to broaden its income sources, so as to drive the Group's long term and sustainable development.

During the Review Period, the Group has ceased the operation of the store located on Middle Renmin Road, Kunming, Yunnan Province, in May due to the expiration of the lease agreement. As of 30 June 2020, the Group operated and managed 39 department stores (including concept stores "Parkson Beauty"), 1 Lion Mall, 2 Parkson Newcore City Malls, supermarkets, fashion, and food & beverage outlets in 28 major cities.

Expand Retail Portfolio with a Flexible and Diverse Strategy

Facing the continuous challenges of market changes and fierce competition, Parkson insists in innovated revolution and expands its retail portfolio with a flexible and diverse strategy. The Group believes that its tactics of "Multiple Stores in a City" and "Differentiated Market Positioning" can help manage Parkson's department stores effectively and reach more customers at different consumption levels, with consumption habits. Hence, the Group can gain more market share in the long run.

The Group opened a new Parkson store in Nanchang City, Jiangxi Province - Nanchang Bayiguan Store in January 2020. The store is next to the Nanchang Zhongshan Road Store. The differentiated market positioning and synergies created by the two stores can fully demonstrate the Group's strong advantages in promoting diversified retail and strategic market expanding.

In June 2020, the Group signed a lease agreement with Wuzhou Sankee Investment Co., Ltd. through its wholly-owned subsidiary, Nanning Brilliant Parkson Commercial Co., Ltd., to lease the first to fourth floors above ground level of Sunshine 100 Sankee City, Changzhou District, Wuzhou City, to open a new Parkson store. Wuzhou Sankee Parkson Store will be the fourth store of the Group setup in Guangxi Zhuang Autonomous Region, and is scheduled to open in the coming year. The preparation of Wuzhou Sankee Parkson Store is in line with the Group's development strategy in the Guangxi Zhuang Autonomous Region. It is expected that the opening of the store will help the Group to further expand its business in the region.

In addition, the Group's second department store in Datong City, Shanxi Province is expected to serve the public officially in the third quarter of 2020. The store will operate as a "department store and shopping mall complex", so as to enrich the retail portfolio of the property. The preparation work of the store in Tongren City, Guizhou Province is proceeding actively and is expected to open in the third quarter of 2020.

Other than expanding the Group's own stores, it is also actively looking for new business partners to expand the Parkson brand through a strong alliance. In March 2020, the Group cooperated with Jinjin Changfa Group, a well-known commercial brand in Suzhou City, Jiangsu Province, to comprehensively upgrade and renovate Suzhou Changfa Commercial Building, which has a history of 25 years and is located in the core business district of Gusu District, Suzhou City. The project is expected to be launched in the fourth quarter of 2020 with a new outlook of "Parkson Changfa Hui", which will integrate leading fashion lifestyle retail concepts and Suzhou lifestyle, to meet the needs of different consumer groups. The cooperation marks that the Group has stepped into the core market of Suzhou City. The Group believes that, with the strong advantages of both Parkson and Jinjin Changfa Group in commercial retail and market reputation, "Parkson Changfa Hui" will become a new benchmark for "Business, Tourism and Culture" in Gusu District.

Promote Sustainable Development with Multi-business Portfolio

The Group embraces both a flexible and effective business layout, as well as high quality products and services for its success and long-term continuous development. Over the years, the Group is devoted to continuously attract new and regular customers with diversified product combinations and optimizing consumption experiences for customers. Therefore, the Group has been actively expanding its product categories with diversified and quality products in order to satisfy consumers' demands.

Besides, for product porfolio expansion, the Group has maintained a keen insight into the younger generation's consumption habits and preferences since its fashion and beauty segments were developed. With the information and knowledge accumulated, the Group then implemented targeted development strategies for these two segments, such as introducing more international beauty brands and carrying out a variety of operation, leading the two business segments to achieve stable development and continuously gain customers' favour and support. Especially for the beauty segment, which was unavoidably affected by COVID-19 to some extent, has recovered quickly after the epidemic by taking advantage of Group's timely adjustment on business strategies. The Group flexibly applies the "O2O New Retail Strategies", by integrating the online and offline sales channels. By promoting beauty products through webcasting, the Group has driven offline sales to grow steadily, among which, the Group's concept store Parkson Beauty has recorded stable sales growth. In the future, our Group will continue to promote its brand image and popularity through different marketing promotions, so as to progressively expand the Group's market share in the fashion and beauty segments.

For more efficient use of resources, the Group has been adjusting its Fuxingmen Parkson Store in Beijing since the second half of 2019 and plans to convert the North Building, the Group's self-owned properties, into office building for rental. During the Review Period, the Group continued to advance the renovation project and it is expected to enter into lease agreements with office tenants by the end of 2020, with the renovation work estimated to be finished in the first quarter of 2021. Geographically, Beijing Fuxingmen Parkson Store is located in Beijing Financial Street, which is the centre of Beijing and surrounded by a number of office buildings. The Group believes that, as part of Beijing's financial street, the North Building of Fuxingmen Store can meet the numerous office rental demand in the region and is expected to generate stable rental income for the Group.

Strengthen Online and Social Network Services to Improve Customer Experience

With the development of Internet technology, as well as the accelerating innovation of retail formats, the "Online + Offline" new retail mode is favored by major retailers. Especially under the influence of COVID-19, offline consumption has been impacted greatly. However, the situation has accelerated the development of online retail sales. According to the data released by China's National Bureau of Statistics recently, in the first six months of 2020, online retail sales of physical goods increased by 14.3% year-on-year, accounting for 25.2% of the total retail sales of consumer goods.

As a leading fashion lifestyle retailer in China, the Group is striving to seize the new opportunities brought by e-commerce and improve its “Online + Offline” new sales mode actively. The Group has taken various measures to stimulate consumption and drive the growth of offline retail business through the promotions on various online channels, including Parkson’s official Wechat account and mobile shopping mini-program, so as to improve customers’ enthusiasm for consumption. At the same time, the Group took this opportunity to attract more customers to visit Parkson stores for better shopping experience.

Prospect

In recent years, China’s overall consumption mode has upgraded to high-quality consumption, while offline consumption has upgraded to “Online + Offline” consumption. On the whole, the country’s internal demand is growing fast, with continuous consumption upgrading. Therefore, the Group believes that retail sales remains one of the key growth drivers of China’s economy. In addition, with the effective control of COVID-19 by the Chinese government and the implementation of a number of measures to encourage enterprises to resume production and to stimulate residents’ consumption, China’s retail market has recovered gradually and residents’ desire to go out for consumption has also picked up steadily. In view of this, the Group remains optimistic about the overall retail market prospect in the second half of the year.

Looking forward, for Parkson’s retail stores, the Group will continue to improve the product portfolio, so as to provide customers with more attractive and high-quality products. At the same time, the Group will strengthen its online promotion to attract more customers to Parkson’s offline stores. To this end, the Group will vigorously develop “O2O New Retail Strategy” and the related projects, strengthen the integration of online and offline retail sales, and effectively manage the marketing projects and personalize customer service through the new social media network and VIP membership management, in order to meet the changes in the retail industry, satisfy the market demand and seize more business opportunities.

Furthermore, in the face of macroeconomic instability, the Group is actively looking for different business partners to explore new business opportunities, so as to diversify the Group’s business portfolio and solidify Parkson’s position as a leading lifestyle retailer in China.

We believe that the Group will be able to achieve stable performance amid the challenging market environment and create long-term value for its shareholders, by virtue of the Group’s high-quality services in China’s retail market, diversified product portfolio and innovative business model combining diversified retail formats.

FINANCIAL REVIEW

GSP and total operating revenues

During the first six months of 2020, the Group generated total GSP of RMB4,896.3 million (inclusive of value-added tax) or RMB4,372.9 million (net of value-added tax). Total GSP decline of 34.7% was mainly due to the decrease in total merchandise sales resulting from the declined SSS. SSS decreased by 31.4% in 1H2020.

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-month period ended 30 June				**Year-on-year change (%)**
	2020		**2019**		
	RMB'000	% of total	RMB'000	% of total	
Concessionaire sales	2,844,726	70.7%	4,760,521	77.7%	(40.2%)
Direct sales	1,181,711	29.3%	1,369,587	22.3%	(13.7%)
	4,026,437	100.0%	6,130,108	100.0%	(34.3%)

In 1H2020, sales from concessionaire counters, which constituted 70.7% of our total merchandise sales in 1H2020, decreased by 40.2% compared to the same period of last year; direct sales decreased by RMB187.9 million or 13.7% from RMB1,369.6 million in 1H2019 to RMB1,181.7 million in 1H2020. Our sales in 1H2020 decreased across both concessionaire sales and direct sales compared to 1H2019 mainly due to the impact of the outbreak of COVID-19 in early 2020. Emergency public health measures and various actions such as restrictions on the resumption date of work after Chinese New Year holidays, travel restriction and quarantine orders imposed by the local government of many cities in the PRC to prevent the spread of the pandemic which has seriously affected the customer traffic. These measures and policies have led to some department stores of the Group postponed operations or shortened business hours during the period under review.

Merchandise sales mix

The following table sets out a breakdown of merchandise sales mix for the periods indicated:

	For the six-month period ended 30 June	
	2020	**2019**
	% of total merchandise sales	% of total merchandise sales
Cosmetics & Accessories	54.7%	51.7%
Fashion & Apparel	36.0%	40.5%
Groceries & Perishables	6.8%	5.2%
Household & Electrical	2.5%	2.6%
	100.0%	100.0%

During 1H2020 and 1H2019, a majority of our merchandise sales was derived from sales under the Cosmetics & Accessories and Fashion & Apparel categories. During the COVID-19 outbreak period, we made more use of online platforms and social media channels including Parkson's official WeChat account and our mobile shopping mini-program to promote the sale of cosmetics and beauty products, resulting in a further increase in the proportion of Cosmetics & Accessories category.

Merchandise gross margin

The Group's merchandise gross margin, a combination of concessionaire commission rate and the direct sales margin, decreased from 16.1% in 1H2019 to 15.2% in 1H2020, primarily due to more promotional activities to stimulate sales during the period under review.

Total operating revenues

Total operating revenues of the Group decreased by 24.1% to RMB1,963.9 million in 1H2020 as compared to RMB2,587.8 million in 1H2019. 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 1H2020, revenue from contracts with customers, which constituted 82.7% of our total operating revenues in 1H2020, decreased by RMB503.8 million or 23.7% 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 RMB131.5 million or 11.6% from RMB1,137.8 million in 1H2019 to RMB1,006.3 million in 1H2020. The decrease was primarily due to a decrease in our procurement of goods from third party vendors, resulting from the decreased direct sales.

Staff costs

Staff costs decreased by RMB79.3 million or 23.3% from RMB341.0 million in 1H2019 to RMB261.7 million in 1H2020. The decrease was mainly due to the decrease in pension scheme contributions, unemployment insurance and work-related injury insurance as a result of the government's policy of social welfare exemption to support enterprises in response to COVID-19 pandemic. On a same store basis, staff costs decreased by 22.3% in 1H2020.

Staff costs as a percentage of GSP increased from 5.2% in 1H2019 to 6.0% in 1H2020.

Depreciation and amortisation

Depreciation and amortisation decreased by 0.6% from RMB346.2 million in 1H2019 to RMB344.0 million in 1H2020. The decrease was primarily due to savings from fully depreciated assets in some stores. In 1H2020, RMB232.6 million of depreciation expense on the right-of-use assets was charged to depreciation and amortisation compared to RMB228.0 million in 1H2019. On a same store basis, depreciation and amortisation decreased by 5.6% in 1H2020.

Depreciation and amortisation as a percentage of GSP increased from 5.2% in 1H2019 to 7.9% in 1H2020.

Rental credit/(expenses)

Rental credit of the Group was RMB20.0 million in 1H2020, a turnaround decrease of RMB66.9 million or 142.6% as compared to rental expenses of RMB46.9 million in 1H2019. Under IFRS 16, rental expenses primarily represent the variable rents we pay to third-party lessors. In accordance with *Amendment to IFRS 16 - Covid-19-Related Rent Concessions* issued by the IASB on 28 May 2020, the Group, as a lessee, applying the practical expedient to the rent concessions that occur as a direct consequence of the COVID-19 pandemic, accounted for a forgiveness or waiver of lease payments as a variable lease payment. Since the outbreak of COVID-19, the Group has taken active negotiations with landlords for rental reduction during this challenging period. In 1H2020, amount of RMB50.6 million was deducted in rental expenses to reflect changes in lease payments that arise from rent concessions to which the practical expedient is applied. On a same store basis, rental expenses decreased by 152.2% in 1H2020.

Rental credit as a percentage of GSP was 0.5% in 1H2020, as compared to rental expenses as a percentage of GSP was 0.7% 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 23.5% from RMB358.8 million in 1H2019 to RMB274.6 million in 1H2020 as a result of further implementing cost control measures. On a same store basis, other operating expense decreased by 19.6% in 1H2020.

Other operating expenses as a percentage of GSP increased from 5.4% in 1H2019 to 6.3% in 1H2020.

Profit from operations

The Group posted profit from operations of RMB97.2 million in 1H2020, a decrease of RMB259.9 million or 72.8% compared to a profit of RMB357.1 million recorded in 1H2019.

Profit from operations as a percentage of GSP decreased from 5.4% in 1H2019 to 2.2% in 1H2020.

Finance income/costs

The Group incurred net finance costs of RMB244.6 million in 1H2020 which represented a decrease of RMB10.8 million or 4.2% compared to RMB255.4 million 1H2019. In 1H2020, RMB214.0 million of interest expense on the lease liability was charged to finance costs compared to RMB216.0 million in 1H2019; and RMB13.4 million of interest income on the net investments in sublease was recognised in finance income compared to RMB14.5 million in 1H2019 under IFRS 16.

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 Group. The share of profit from a joint venture decreased from RMB7.4 million in 1H2019 to RMB2.5 million in 1H2020. This decrease was primarily due to the COVID-19-related disruption on operation of the department store resulting in the decline in sales.

Share of (loss)/profit from associates

This is the share of results from the Group's associated companies. The share of loss from associates was RMB1.8 million in 1H2020, a turnaround decrease of RMB4.9 million compared to a profit from associates of RMB3.1 million recorded in 1H2019. This decrease was also primarily due to the negative impact of COVID-19 disruptions.

(Loss)/profit before tax

Loss before tax increased by 230.7% year-on-year to RMB146.6 million in 1H2020, compared to a profit before tax of RMB112.2 million in 1H2019. This increase in loss before tax was primarily due to our decreased revenue.

Loss before tax as a percentage of GSP was 3.4% in 1H2020, as compared to profit before tax as a percentage of GSP was 1.7% in 1H2019.

Income tax expense

Income tax expense decreased by 51.4% year-on-year to RMB37.0 million in 1H2020. This decrease was primarily due to a decrease in our profit before tax in 1H2020.

(Loss)/profit for the period

As a result of the foregoing, the Group recorded a loss for the period of RMB183.7 million in 1H2020 as compared to a profit of RMB36.1 million for the corresponding period of last year.

(Loss)/profit attributable to owners of the parent

The Group recorded a loss attributable to owners of the parent amounted to RMB189.4 million in 1H2020 as compared to a profit of RMB23.9 million recorded for the corresponding period of last year.

Liquidity and financial resources

As at 30 June 2020, 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 RMB3,056.4 million, representing a reduction of RMB1,437.3 million or 32.0% from the balance of RMB4,493.7 million recorded as at 31 December 2019. The decrease was mainly due to (i) net cash outflow used in operating activities amounting to RMB33.7 million; (ii) net cash outflow used in investing activities amounting to RMB33.1 million; and (iii) net cash outflow used in financing activities amounting to RMB1,370.5 million.

Total debt to total asset ratio of the Group was 21.8% as at 30 June 2020.

Current assets and net assets

The Group's current assets as at 30 June 2020 were approximately RMB3,433.5 million. Net assets of the Group decreased by 5.9% to RMB4,089.8 million as at 30 June 2020 from RMB4,346.3 million as at 31 December 2019.

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 2020, the balance of these products was RMB41.0 million, accounting for approximately 0.3% of the total assets of the Group.

Financial assets at fair value through profit or loss refer to the non-principal preservation type wealth management products subscribed by the Group from licensed banks operate in China. As at 30 June 2020, the fair value of these products was RMB236.1 million, accounting for approximately 1.7% of the total assets of the Group.

Pledge of assets

As at 30 June 2020, the Group has pledged deposits of RMB702.5 million, pledged account receivables of RMB200.2 million, pledged buildings, investment properties and prepaid land lease payment with net carrying amount of RMB2,270.3 million, RMB289.7 million and RMB363.5 million, repectively, to secure the general interest-bearing bank loans. In addition, the Group has pledged unrealised receivables of RMB40.0 million which will be due within 48 months to secure the general interest-bearing bank loans. The Group has pledged buildings with a net carrying amount of RMB166.6 million to secure the bank facilities of RMB42.5 million which was not utilised as at 30 June 2020. 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 2020, 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 2020, the Company has fully complied with the Corporate Governance Code ("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. Following the resignation of Mr. Chong Sui Hiong as the former Chief Executive Officer of the Group ("CEO") on 1 February 2019, certain functions of CEO have been undertaken by Tan Sri Cheng Heng Jem, the Executive Director and Chairman of the Company. Since 1 February 2019 up to the period ended 30 June 2020, the Company has deviated from code provision A.2.1 of the CG Code. 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.

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 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 2020.

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 2020, 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 2020 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

20 August 2020

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. Ko Desmond and Mr. Yau Ming Kim, Robert.