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 2023

HIGHLIGHTS

Total operating revenues for the period amounted to RMB2,218.2 million, representing an increase of 11.3% as compared to RMB1,993.4 million for the corresponding period of last year.

Same store sales ("SSS") for the period increased by 4.9%.

Total gross sales proceeds ("GSP") inclusive of value-added tax for the period were RMB5,365.5 million, representing a year-on-year increase of 7.3%.

Profit from operations for the period was RMB264.8 million, representing an increase of RMB262.1 million as compared to RMB2.7 million for the corresponding period of last year.

Profit attributable to owners of the Company for the period was RMB63.1 million, as compared to a loss attributable to owners of the Company of RMB181.8 million recorded for the corresponding period of last year.

Declared interim dividend of RMB0.01 per share.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023 ("1H2023") with comparative figures for the corresponding period in the year 2022 ("1H2022"). The unaudited consolidated interim results have been reviewed by the auditor, Grant Thornton Hong Kong Limited and the audit committee of the Company (the "Audit Committee").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the six months ended 30 June 2023 *RMB'000* Unaudited	2022 *RMB'000* Unaudited (restated)
Revenues	*4*	**1,961,221**	1,768,859
Other operating revenues	*4*	**257,000**	224,564
Total operating revenues		**2,218,221**	1,993,423
Operating expenses			
Purchases of goods and changes in inventories		**(999,261)**	(998,273)
Staff costs		**(250,802)**	(280,851)
Depreciation and amortisation		**(302,103)**	(309,121)
Rental expenses		**(43,203)**	(12,828)
Other operating expenses		**(358,037)**	(389,629)
Total operating expenses		**(1,953,406)**	(1,990,702)
Profit from operations		**264,815**	2,721
Finance income	*6*	**27,444**	31,026
Finance costs	*6*	**(249,304)**	(217,673)
Share of profits/(losses) of:			
– A joint venture		**10,025**	(1,182)
– Associates		**7,602**	(4,897)
Profit/(Loss) before tax	*5*	**60,582**	(190,005)
Income tax credit	*7*	**6,140**	8,900
Profit/(Loss) for the period		**66,722**	(181,105)
Attributable to:			
– Owners of the Company		**63,093**	(181,794)
– Non-controlling interests		**3,629**	689
		66,722	(181,105)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*8*		
Basic and diluted		**RMB0.024**	(RMB0.069)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited (restated)
Profit/(Loss) for the period	**66,722**	(181,105)
Other comprehensive expense		
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations	**(52,752)**	(77,180)
Other comprehensive expense that will not be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of the Company	**(30,226)**	(31,455)
Other comprehensive expense for the period, net of tax	**(82,978)**	(108,635)
Total comprehensive expense for the period	**(16,256)**	(289,740)
Attributable to:		
– Owners of the Company	**(19,885)**	(290,429)
– Non-controlling interests	**3,629**	689
	(16,256)	(289,740)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2023** *RMB'000* **Unaudited**	As at 31 December 2022 *RMB'000* Audited (restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,845,337**	2,905,940
Investment properties		**515,132**	538,758
Right-of-use assets		**2,246,051**	2,478,736
Goodwill		**1,652,960**	1,652,960
Other intangible assets		**1,657**	4,127
Investment in a joint venture		**22,991**	12,966
Investment in associates		**48,116**	43,183
Trade receivables	*10*	**318,145**	249,585
Time deposits		**25,102**	25,102
Other assets		**296,579**	349,700
Deferred tax assets		**288,495**	278,670
		8,260,565	8,539,727
CURRENT ASSETS			
Inventories		**374,809**	500,802
Trade receivables	*10*	**243,041**	221,074
Prepayments and other receivables		**561,552**	444,271
Financial assets at fair value through profit or loss		**83,884**	108,315
Restricted cash		**56,418**	–
Time deposits		**29,560**	9,477
Cash and cash equivalents		**1,597,939**	1,464,096
		2,947,203	2,748,035
Assets classified as held for sale		**–**	264,088
		2,947,203	3,012,123
CURRENT LIABILITIES			
Trade payables	*11*	**577,780**	480,425
Other payables and accruals		**601,629**	767,469
Contract liabilities		**592,355**	621,313
Interest-bearing bank loans		**295,407**	280,960
Lease liabilities		**684,863**	645,952
Tax payable		**57,694**	19,999
		2,809,728	2,816,118
NET CURRENT ASSETS		**137,475**	196,005
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,398,040**	8,735,732

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2023 *RMB'000* Unaudited	As at 31 December 2022 *RMB'000* Audited (restated)
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**2,275,127**	2,248,972
Lease liabilities	**2,581,802**	2,853,702
Deferred tax liabilities	**239,406**	314,779
	5,096,335	5,417,453
NET ASSETS	**3,301,705**	3,318,279
EQUITY		
Issued capital	**55,477**	55,477
Reserves	**3,174,022**	3,193,907
	3,229,499	3,249,384
Non-controlling interests	**72,206**	68,895
TOTAL EQUITY	**3,301,705**	3,318,279

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are the operation and management of a network of department stores, shopping malls, outlets and supermarkets mainly in the People's Republic of China (the "PRC"), and the provision of credit services in Malaysia.

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*" issued by the International Accounting Standards Board.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group applies, for the first time, Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The amendments clarify that the initial recognition exemption of deferred tax in IAS 12 "Income Taxes" does not apply to transactions that give rise to equal taxable and deductible temporary differences, such as lease contracts that give rise to the recognition of a lease liability and the corresponding right-of-use assets and contracts that give rise to the recognition of decommissioning obligations and corresponding amounts recognised as assets. Instead, entities are required to recognise the related deferred tax asset and liability on initial recognition, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12 "Income Taxes".

With the adoption of Amendments to IAS 12 by the Group from 1 January 2023, the accounting treatments of initial recognition exemption on deferred tax no longer apply to assets and liabilities arising from the relevant single transactions. According to IAS 12, "Income Taxes", corresponding deferred tax liabilities and assets shall be recognised respectively at the time of the transaction and included in the profit or loss for the current period. Meanwhile, for the deferred tax related to assets and liabilities arising from the related single transactions between the beginning of the earliest comparative period presented in the financial statements in which the Group first applied the above provisions and the effective date, the Group shall make retrospective adjustments and adjust the opening balance of retained earnings of the earliest comparative period presented in the financial statements and other relevant items in financial statements with any cumulative effect recognised as an adjustment to retained earnings at that date.

The changes in accounting policies may have impacts on the items of "deferred tax assets", "deferred tax liabilities" and "income tax expense" in the consolidated financial statements of the Company for the year 2023 and thereafter.

Prior to the application of the amendments, the Group had recognised the deferred tax assets and liabilities arising from leases on a net basis. Following the requirements of the amendments, the Group has recognised a deferred tax liability in relation to its right-of-use assets as at 1 January 2022 and has only recognised deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The impact of the retrospective adjustments of the changes in accounting policies on the items and amounts in the consolidated financial statements for the comparative period, which were prepared by the Company in accordance with International Financial Reporting Standards, is as follows:

	Consolidated Statement of Financial Position As at 1 January 2022		
	Before adjustment	**Adjustment amount**	**After adjustment**
Items	***RMB'000***	***RMB'000***	***RMB'000***
Deferred tax assets	290,958	(45,179)	245,779
Deferred tax liabilities	245,510	115,691	361,201
Total equity	4,056,674	(160,870)	3,895,804

	Consolidated Statement of Financial Position		
	As at 31 December 2022/1 January 2023		
	Before adjustment	**Adjustment amount**	**After adjustment**
Items	***RMB'000***	***RMB'000***	***RMB'000***
Deferred tax assets	331,261	(52,591)	278,670
Deferred tax liabilities	236,080	78,699	314,779
Total equity	3,449,569	(131,290)	3,318,279

	Interim Condensed Consolidated Statement of Profit or Loss		
	For the six months ended 30 June 2022		
	Before adjustment	**Adjustment amount**	**After adjustment**
Items	***RMB'000***	***RMB'000***	***RMB'000***
Income tax expenses/(credit)	6,827	(15,727)	(8,900)
Loss for the period	196,832	(15,727)	181,105

3. GROSS SALES PROCEEDS

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Sale of goods from direct sales	**1,164,266**	1,155,058
Gross revenue from concessionaire sales	**3,003,808**	2,872,126
Total merchandise sales	**4,168,074**	4,027,184
Others (including consultancy and management service fees, gross rental income, credit services income and other operating revenues)	**655,615**	451,611
Total gross sales proceeds	**4,823,689**	4,478,795
Total gross sales proceeds (inclusive of value-added tax)	**5,365,540**	5,002,329

4. REVENUES, OTHER OPERATING REVENUES AND SEGMENT INFORMATION

Revenues

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Revenue from contracts with customers		
Sale of goods from direct sales	**1,164,266**	1,155,058
Commissions from concessionaire sales	**398,340**	386,754
Consultancy and management service fees	**10,275**	5,777
	1,572,881	1,547,589
Revenue from other sources		
Gross rental income	**341,058**	188,839
Credit services	**47,282**	32,431
	388,340	221,270
	1,961,221	1,768,859

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

Other operating revenues

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Credit card handling fees	**13,689**	13,341
Promotion income	**22,805**	21,362
Electricity and water fees	**58,045**	51,777
Administration fees	**71,402**	70,702
Display space and equipment leasing income	**30,148**	26,355
Service fees	**13,089**	12,173
Government grants *(Note)*	**13,623**	6,216
Other income	**34,199**	22,638
	257,000	224,564

Note:

Various local government grants have been granted to reward the Group for its contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

Segment information

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

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

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Staff costs excluding directors' and chief executive's remuneration:		
– Wages, salaries and bonuses	**189,118**	214,975
– Pension scheme contributions*	**22,458**	24,126
– Social welfare and other costs	**34,158**	36,826
	245,734	275,927
Directors' and chief executive's remuneration	**5,068**	4,924
Total staff costs	**250,802**	280,851
Rental expenses in respect of leased properties:		
– Lease payments not included in the measurement of lease liabilities	**43,203**	39,632
– COVID-19 related rent concessions from lessors	**–**	(26,804)
Total rental expenses	**43,203**	12,828
Gross rental income in respect of investment properties	**(146,403)**	(2,898)
Lease income in respect of sublease of properties under operating leases:		
– Minimum lease payments**	**(136,308)**	(128,264)
– Contingent lease payments***	**(58,347)**	(57,677)
Total gross rental income	**(341,058)**	(188,839)
Cost of inventories recognised as expenses	**999,261**	998,273
Depreciation and amortisation	**302,103**	309,121
Impairment of trade receivables	**8,232**	3,466
Impairment of prepayments and other receivables	**1,419**	878
Impairment of property, plant and equipment	**4,252**	15,078
Impairment of investment properties	**–**	2,263
Impairment of right-of-use assets	**23,957**	38,414
Impairment of goodwill	**–**	7,585
Loss on disposal of property, plant and equipment and investment properties, net	**983**	1,497
Gain on disposal of a subsidiary	**–**	(1,310)
Foreign exchange differences, net	**(4,109)**	21,805
Auditor's remuneration	**600**	600
Direct operating expenses arising from rental-earning investment properties	**23,625**	1,017

* As at 30 June 2023 and 2022, the Group had no forfeited contributions available to reduce its existing level of contributions to the retirement benefit schemes in future years.

** Minimum lease payments of the Group include pre-determined rental payments and minimum guaranteed rental payments for lease agreements without contingent rental payments.

*** Contingent lease payments are calculated based on a percentage of the relevant financial performance of the tenants pursuant to the relevant rental agreements.

6. FINANCE INCOME/(COSTS)

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Finance income:		
Bank interest income	**14,738**	15,688
Gain on redemption of financial assets at fair value through profit or loss	**171**	1,342
Change of fair value of financial assets at fair value through profit or loss	**848**	169
Finance income on the net investments in the subleases	**11,687**	13,827
	27,444	31,026
Finance costs:		
Interest on lease liabilities	**(154,832)**	(176,678)
Interest on interest-bearing bank loans and other borrowings	**(94,472)**	(40,995)
	(249,304)	(217,673)
Finance costs, net	**(221,860)**	(186,647)

7. INCOME TAX CREDIT

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

An analysis of income tax credit is as follows:

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited (restated)
Current income tax	**79,058**	34,122
Deferred tax	**(85,198)**	(43,022)
	(6,140)	(8,900)

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

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

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and 2022.

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	Unaudited	Unaudited
		(restated)
Earnings/(Loss)		
Profit/(Loss) attributable to ordinary equity holders of the Company, used in the basic and diluted earnings/(loss) per share calculations	**63,093**	(181,794)

	For the six months ended 30 June	
	2023	2022
	'000	*'000*
Shares		
Weighted average number of ordinary shares outstanding during the period used in the basic and diluted earnings/(loss) per share calculations	**2,634,532**	2,634,532

9. INTERIM DIVIDEND

The Board approved the payment of an interim dividend of RMB0.01 in cash per share. The interim dividend will be paid in Hong Kong dollars, such amount is to be calculated by reference to the middle rate published by People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 6 September 2023.

The interim dividend will be payable on 20 September 2023 to the shareholders whose name appears on the Register of Members of the Company at the close of business on 6 September 2023.

10. TRADE RECEIVABLES

Trade receivables mainly arise from purchase by customers with credit cards and credit services arise from loan receivables. The credit period of trade receivables is generally one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances, except for loan receivables which are secured over the motor vehicles of customers. Among the balance, RMB499,534,000 (31 December 2022: RMB405,428,000) are with an interest rate range from 7.6% to 16.0% (31 December 2022: 7.6% to 18.0%) depending on the payment term of loan receivables, while others are interest-free.

An ageing analysis of the trade receivables as at 30 June 2023 and 31 December 2022 based on the invoice date and net of loss allowance, is as follows:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 1 year	**243,041**	221,074
1 to 2 years	**149,757**	128,190
Over 2 years	**168,388**	121,395
	561,186	470,659

11. TRADE PAYABLES

An aging analysis of the trade payables is as follows:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 3 months	**533,979**	438,147
4 to 12 months	**19,614**	17,744
Over 1 year	**24,187**	24,534
	577,780	480,425

12. CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from 5 September 2023 to 6 September 2023 (both dates inclusive). During such period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 4 September 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board wishes to present the interim results of the Group for the six months ended 30 June 2023 (the "Review Period").

During the Review Period, the People's Republic of China ("PRC") has been adjusting and fine-tuning its COVID-19 prevention and control measures in response to the evolving situation. The gradual resumption of cross-province and cross-border travel is expected to drive the Group's growth.

While the Group is faced with significant challenges such as the economic slowdown and a slower than expected recovery in consumer spending, the Group is determined to overcome them by being agile, customer-focused and cost-conscious in order to drive the Group strategies for sustainable growth.

Financial Results

During the Review Period, the Group recorded gross sales proceeds of RMB5,365.5 million (including value-added tax), representing an increase of 7.3% compared to the same period last year. This increase was mainly due to the increase in rental income and the growth in Same Store Sales ("SSS") with the lifting of COVID-19 related prevention and control measures. SSS increased by 4.9% during the Review Period. The operating profit of the Group during the Review Period was RMB264.8 million as compared the same period last year of RMB2.7 million, representing an increase of RMB262.1 million compared to the same period last year.

As of 30 June 2023, the Group operated and managed 43 Parkson stores, including department stores, shopping malls, city outlets, the "Parkson Beauty" concept store and supermarkets, as well as 2 Parkson Newcore City Malls, across 29 cities in PRC and Laos.

Focusing on Main Business

In the face of ongoing market changes and intense competition, the Group is focusing on its main business and striving to become a leading commercial space operator. The Group continually evaluates and adjusts its resources in a timely manner, in line with its business development plan. By diversifying its income sources and exploring various business models, the Group aims to drive sustainable development.

The Group believes that its strategies of "Multiple Stores in a City" and "Model Innovation" will attract customers with different consumption levels and habits, ultimately allowing the Group to gain greater market share in the long run.

In October 2022, the Group's wholly-owned subsidiary, Jiangxi Parkson Shopping Centre Management Co., Ltd., signed a Tenancy Agreement with Nanchang Hui Xin Industrial Co., Ltd. with the objective of opening a new store in Nanchang County, Jiangxi Province, expected to be in the fourth quarter of 2023. This store will be the Group's fourth store in Jiangxi Province.

In April 2023, the Group's wholly-owned subsidiary, Mianyang Fulin Parkson Plaza Co., Ltd., undertook the signing of a Tenancy Agreement with Mianyang New Investment Industrial Co., Ltd. The store is expected to be launched in the first quarter of 2026. Besides this, Mianyang Fulin Parkson Plaza Co., Ltd. entered into a Tenancy Agreement with Mianyang Kefa Construction Group Co., Ltd in June 2023 to open a supermarket in the fourth quarter of 2023. These two new stores will be the Group's fourth and fifth stores in Mianyang City, Sichuan Province.

Additionally, the Group's wholly-owned subsidiary, Shanxi Parkson Retail Development Co., Ltd., entered into a Parkson Outlet Cooperation Agreement with Datong Dezhiyuan Real Estate Development Co., Ltd. in January 2023. To implement the Cooperation Agreement, the Group and the Landlord entered into a Tenancy Agreement and Entrusted Management Agreement on the same date. This will be the Group's third store in Datong City, which is expected to be launched in the second half of 2024.

The Group's beauty concept store, namely "Parkson Beauty" specializes in premium cosmetics, skincare products and beauty services offering fashionable products and personalized beauty service to esteemed customers. The Group closely monitors the beauty market's development trends and promptly launches targeted strategies for the beauty sector, aiming to attract the younger generation of consumers through customized service experiences.

Outlook and Future Plans

Looking ahead, with four new stores in the pipeline, the Group is well-positioned to capture growth opportunities in markets that we are very familiar with. These new stores will enable us to offer our customers an even wider range of high-quality products. As an outstanding commercial space operator, we aim to provide our customers with an exceptional shopping and life experiences. We are confident that these experiences will contribute significantly to our long-term sustainable growth and profitability.

We believe that with the lifting of COVID-19 related prevention and control measures, along with the Group's business strategies and extensive experience in the retail market over the past three decades, we can achieve stable and sustainable performance despite the challenging environment, and create long-term value for our shareholders.

FINANCIAL REVIEW

GSP and total operating revenues

During the first six months of 2023, the Group generated total GSP of RMB5,365.5 million (inclusive of value-added tax) or RMB4,823.7 million (net of value-added tax). Total GSP increase by 7.3% was mainly due to increase in rental income and total merchandise sales. Rental income increased by 80.6% and SSS increased by 4.9% in 1H2023.

Total merchandise sales

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

	For the six months ended 30 June				
	2023		2022		Year-on-year
	RMB'000	*% of total*	*RMB'000*	*% of total*	change (%)
Concessionaire sales	**3,003,808**	**72.1%**	2,872,126	71.3%	4.6%
Direct sales	**1,164,266**	**27.9%**	1,155,058	28.7%	0.8%
	4,168,074	**100.0%**	4,027,184	100.0%	3.5%

Concessionaire sales which constituted 72.1% of the Group's total merchandise sales in 1H2023, increased by 4.6% as compared to the same period of last year; while direct sales increased by 0.8% as compared to the same period of last year. The Group's sales in 1H2023 increased across both concessionaire sales and direct sales as compared to 1H2022.

Merchandise gross margin

The Group's merchandise gross margin, a combination of concessionaire commission rate and the direct sales margin, remain stable at 13.5% in 1H2023 as compared to 1H2022.

Total operating revenues

Total operating revenues of the Group increased by 11.3% to RMB2,218.2 million in 1H2023 as compared to RMB1,993.4 million in 1H2022. The increase in total operating revenues was mainly due to the recognition of rental income from the investment property located in Beijing Financial Street.

The revenue from contracts with customers which constituted 70.9% of our total operating revenues in 1H2023, increased by RMB25.3 million or 1.6% as compared to the same period of last year. The revenue from contracts with customers consists of sale of goods from direct sales, commissions from concessionaire sales and consultancy and management service fees.

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 RMB1.0 million or 0.1% from RMB998.3 million in 1H2022 to RMB999.3 million in 1H2023. The purchase of goods and changes in inventories remain stable in 1H2023 as compared to the same period of last year.

Staff costs

Staff costs decreased by RMB30.0 million or 10.7% from RMB280.9 million in 1H2022 to RMB250.8 million in 1H2023. The decrease was mainly due to closure of underperforming business. On a same store basis, staff costs decreased by 3.8% in 1H2023.

Staff costs as a percentage of GSP decreased from 6.3% in 1H2022 to 5.2% in 1H2023.

Depreciation and amortisation

Depreciation and amortisation decreased by 2.3% from RMB309.1 million in 1H2022 to RMB302.1 million in 1H2023. The decrease was primarily due to decrease in depreciation for the right-of-use assets of the properties as a result of changed in lease term for certain stores and closure of underperforming business. In 1H2023, depreciation expenses on right-of-use assets of RMB183.2 million was recognised as compared to RMB207.7 million in 1H2022. On a same store basis, depreciation and amortisation decreased by 9.0% in 1H2023.

Depreciation and amortisation as a percentage of GSP decreased from 6.9% in 1H2022 to 6.3% in 1H2023.

Rental expenses

Rental expenses increased by RMB30.4 million to RMB43.2 million in 1H2023 from RMB12.8 million. The increased in rental expenses mainly due to RMB26.8 million in 1H2022 was deducted in rental expenses to reflect changes in lease payments that arise from rent concessions to which the practical expedient under IFRS 16 is applied where not applicable for 1H2023. On a same store basis, rental expenses increased by RMB29.4 million in 1H2023.

Rental expenses as a percentage of GSP increased from 0.3% in 1H2022 to 0.9% in 1H2023.

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 8.1% from RMB389.6 million in 1H2022 to RMB358.0 million in 1H2023. The decrease in other operating expenses mainly due to assets impairment of RMB65.0 million was provided in 1H2022 where RMB37.9 million was provided in 1H2023. On a same store basis, other operating expense decreased by 14.5% in 1H2023.

Other operating expenses as a percentage of GSP decreased from 8.7% in 1H2022 to 7.4% in 1H2023.

Profit from operations

The Group generated a profit from operations of RMB264.8 million in 1H2023, an increase of RMB262.1 million as compared to a profit of RMB2.7 million recorded in 1H2022.

Profit from operations as a percentage of GSP increased from 0.1% in 1H2022 to 5.5% in 1H2023.

Finance income/(costs)

The Group incurred net finance costs of RMB221.8 million in 1H2023 which represented an increase of RMB35.2 million or 18.9% compared to RMB186.6 million 1H2022. The increase in finance cost mainly resulted from the increase in interest on interest-bearing bank loans which increase from RMB41.0 million in 1H2022 to RMB94.5 million in 1H2023.

For interest expense on the lease liabilities, RMB154.8 million was recognised in finance cost in 1H2023 as compared to RMB176.7 million in 1H2022. For interest income on the net investments in sublease, RMB11.7 million was recognised in finance income as compared to RMB13.8 million in 1H2022 under IFRS 16.

Share of profit/(loss) of a joint venture

This is the share of profit/(loss) from Xinjiang Youhao Parkson Development Co., Ltd., a joint venture of the Group. The Group share of loss of RMB1.2 million in 1H2022 and share of profit of RMB10.0 million in 1H2023.

Share of profit/(loss) from associates

This is the share of results from the Group's associates. The Group share of loss from associates of RMB4.9 million in 1H2022 and share of profit from associates of RMB7.6 million in 1H2023. The increase was mainly due to recovery from COVID-19.

Profit/(Loss) before tax

Profit before tax is RMB60.6 million in 1H2023, compared to loss before tax of RMB190.0 million in 1H2022. This profit before tax in 1H2023 was primarily due to recovery from COVID-19.

Profit before tax as a percentage of GSP was 1.3% in 1H2023, as compared to loss before tax as a percentage of GSP was (4.2%) in 1H2022.

Income tax credit

Income tax expenses is a tax credit of RMB6.1 million in 1H2023 as compared to RMB8.9 million (restated) in 1H2022.

Profit/(Loss) for the period

As a result of the foregoing, the Group recorded a profit for the period of RMB66.7 million in 1H2023 as compared to a loss of RMB181.1 million (restated) recorded for the corresponding period of last year.

Profit/(Loss) attributable to owners of the Company

The Group recorded a profit attributable to owners of the Company amounted to RMB63.1 million in 1H2023 as compared to a loss of RMB181.8 million (restated) recorded for the corresponding period of last year.

Liquidity and financial resources

As at 30 June 2023, the Group had cash and cash equivalents of RMB1,597.9 million (31 December 2022: RMB1,464.1 million), time deposits of RMB54.7 million (31 December 2022: RMB34.6 million), financial assets at fair value through profit or loss of RMB83.9 million (31 December 2022: RMB108.3 million) and restricted cash of RMB56.4 million (31 December 2022: Nil).

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

Total debt to total assets ratio of the Group was 22.9% as at 30 June 2023 (31 December 2022: 21.8%).

Current assets and net assets

The Group's current assets as at 30 June 2023 was RMB2,947.2 million. Net assets of the Group decreased by 0.5% to RMB3,301.7 million as at 30 June 2023 from RMB3,318.3 million (restated) as at 31 December 2022.

Information on the Financial Products

Financial assets at fair value through profit or loss refer to the non-principal preservation type wealth management products subscribed by the Group from licensed banks operate in PRC. As at 30 June 2023, the fair value of these products was RMB83.9 million, accounting for approximately 0.7% of the total assets of the Group.

Pledge of assets

As at 30 June 2023, the Group has pledged account receivables of RMB300.3 million, pledged buildings, investment properties and leasehold land with a net carrying amount of approximately RMB1,392.8 million, RMB511.3 million and RMB324.9 million, respectively, to secure the general bank loans. The Group has pledged unrealised receivables of RMB96.7 million which will be due within 48 months to secure the general interest-bearing bank loans. In addition, the Group has pledged deposits of RMB31.0 million held in designated bank accounts for performance guarantee.

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

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

During the six months ended 30 June 2023, 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 2023, 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").

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 2023.

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 2023, 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 2023 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

17 August 2023

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