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PARKSON RETAIL GROUP LIMITED

百盛商業集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code : 3368)

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

HIGHLIGHTS ON FINAL RESULTS

Total gross sales proceeds improved to RMB10,691.1 million, an increase of 18.7%. Excluding the impact from the Discontinued Stores the gross sales proceeds increased by 21.4%.

Same store sales⁽¹⁾ growth was 12.1%.

Total operating revenues improved to RMB3,536.9 million, an increase of 15.6%. Excluding the impact from the Discontinued Stores the operating revenues increased by 17.8%

Profit from operations improved to RMB1,211.2 million, an increase of 19.1%. Excluding the impact from the Discontinued Stores the profit from operations increased by 21.0%

Net profit for the year improved to RMB878.4 million, an increase of 20.7%. Excluding the impact from the Discontinued Stores the net profit increased by 23.0%.

Net profit attributable to the Group for the year improved to RMB841.1 million, an increase of 24.4%. Excluding the impact from the Discontinued Stores the net profit attributable increased by 26.9%.

Basic earnings per share was RMB0.302.

Proposed final dividends of approximately RMB238.0 million or RMB0.085 per share.

(1) Year on year change in total gross sales proceeds for stores in operation throughout the current year and the immediate preceding year.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

The Board of Directors of Parkson Retail Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December, 2008 with comparative figures for the year 2007 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December	
		2008 RMB'000	2007 RMB'000
Revenues	4	3,137,412	2,726,983
Other operating revenues	4	399,520	332,703
Total operating revenues		<u>3,536,932</u>	<u>3,059,686</u>
Operating expenses			
Purchases of goods and changes in inventories		(982,042)	(865,721)
Staff costs		(264,632)	(268,163)
Depreciation and amortisation		(152,513)	(113,812)
Rental expenses		(378,540)	(324,759)
Other operating expenses		(548,040)	(470,709)
Total operating expenses		<u>(2,325,767)</u>	<u>(2,043,164)</u>
Profit from operations	5	1,211,165	1,016,522
Finance cost, net	6	(86,010)	(73,805)
Share of profit from an associate		975	535
Profit from operations before income tax		<u>1,126,130</u>	<u>943,252</u>
Income tax	7	(247,758)	(215,451)
Net profit for the year		<u>878,372</u>	<u>727,801</u>
Attributable to:			
Equity holders of the parent		841,142	676,000
Minority interests		37,230	51,801
		<u>878,372</u>	<u>727,801</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic		<u>RMB0.302</u>	<u>RMB0.244</u>
Diluted		<u>RMB0.301</u>	<u>RMB0.244</u>
DIVIDENDS			
Interim		167,248	121,582
Proposed final	9	238,000	211,000
		<u>405,248</u>	<u>332,582</u>
DIVIDENDS PER SHARE			
Interim		RMB0.060	RMB0.044
Proposed final	9	RMB0.085	RMB0.076
		<u>RMB0.145</u>	<u>RMB0.120</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Notes	2008	2007
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,306,004	818,705
Investment properties		216,840	222,104
Lease prepayments		409,390	420,470
Intangible assets		2,101,998	1,562,040
Investment in an associate		2,500	2,346
Other assets		106,137	248,477
Held-to-maturity investments, unlisted		1,366,920	1,460,920
Investment in principal guaranteed deposits		-	40,000
Deferred tax assets		41,902	34,971
Total non-current assets		<u>5,551,691</u>	<u>4,810,033</u>
CURRENT ASSETS			
Inventories		187,890	143,940
Trade receivables	10	20,959	18,974
Prepayments, deposits and other receivables		424,562	374,852
Investment in principal guaranteed deposits		617,540	781,450
Cash and short-term deposits		<u>3,031,474</u>	<u>2,860,216</u>
Total current assets		<u>4,282,425</u>	<u>4,179,432</u>
CURRENT LIABILITIES			
Trade payables	11	(1,325,758)	(1,144,716)
Customers' deposits, other payables and accruals		(991,452)	(735,720)
Tax payable		<u>(91,183)</u>	<u>(123,129)</u>
Total current liabilities		<u>(2,408,393)</u>	<u>(2,003,565)</u>
NET CURRENT ASSETS		<u>1,874,032</u>	<u>2,175,867</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,425,723</u>	<u>6,985,900</u>

	As at 31 December	
<i>Notes</i>	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(1,333,000)	(1,417,000)
Long term payables	(97,236)	(95,628)
Deferred tax liabilities	(246,186)	(184,711)
Senior guaranteed notes due November 2011	(1,348,302)	(1,435,118)
Senior guaranteed notes due May 2012	(842,605)	(897,179)
Derivative financial instruments designated as hedging instruments	(31,089)	(88,189)
Total non-current liabilities	<u>(3,898,418)</u>	<u>(4,117,825)</u>
NET ASSETS	<u>3,527,305</u>	<u>2,868,075</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	58,133	57,925
Reserves	3,388,529	2,731,126
	3,446,662	2,789,051
Minority interests	<u>80,643</u>	<u>79,024</u>
TOTAL EQUITY	<u>3,527,305</u>	<u>2,868,075</u>

SUPPLEMENTARY FINANCIAL INFORMATION

	Supplementary income statement for the year ended (RMB'000)					
	31 December 2008 (unaudited)			31 December 2007 (unaudited)		
	Continuing Operations	Discontinued Stores	Total	Continuing Operations	Discontinued Stores	Total
Gross Sales Proceeds	10,642,211	48,859	10,691,070	8,769,466	233,940	9,003,406
Revenues	3,127,998	9,414	3,137,412	2,668,551	58,432	2,726,983
Other operating revenues	397,872	1,648	399,520	324,573	8,130	332,703
Total operating revenues	3,525,870	11,062	3,536,932	2,993,124	66,562	3,059,686
Operating expenses						
Purchases of goods and changes in inventories	(981,638)	(404)	(982,042)	(848,550)	(17,171)	(865,721)
Staff costs	(258,430)	(6,202)	(264,632)	(261,408)	(6,755)	(268,163)
Depreciation and amortisation	(152,266)	(247)	(152,513)	(113,155)	(657)	(113,812)
Rental expenses	(374,822)	(3,718)	(378,540)	(307,710)	(17,049)	(324,759)
Other operating expenses	(541,646)	(6,394)	(548,040)	(456,052)	(14,657)	(470,709)
Total operating expenses	(2,308,802)	(16,965)	(2,325,767)	(1,986,875)	(56,289)	(2,043,164)
Profit / (Loss) from operations	1,217,068	(5,903)	1,211,165	1,006,249	10,273	1,016,522
Finance income / (costs), net	(86,170)	160	(86,010)	(74,465)	660	(73,805)
Share of profit from an associate	975	-	975	535	-	535
Profit / (Loss) from operations before income tax	1,131,873	(5,743)	1,126,130	932,319	10,933	943,252
Income tax	(246,697)	(1,061)	(247,758)	(212,400)	(3,051)	(215,451)
Net profit / (loss) for the year	885,176	(6,804)	878,372	719,919	7,882	727,801
Attributable to:						
Equity holders of the parent	847,946	(6,804)	841,142	668,118	7,882	676,000
Minority interests	37,230	-	37,230	51,801	-	51,801

NOTES

1. CORPORATION INFORMATION

The Company was incorporated in the Cayman Islands with limited liability on 3 August 2005. The Company's ultimate holding company is Parkson Holdings Berhad ("PHB"), a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad.

The Company acts as an investment holding company. The principal activities of its subsidiaries are the operation of department store business in the People's Republic of China ("PRC").

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the company for the year ended 31 December 2008 (the "Financial Statements") have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

3. GROSS SALES PROCEEDS

	For the year ended	
	31 December	
	2008	2007
	RMB'000	RMB'000
Sales of goods – direct sales	1,190,126	1,044,130
Concessionaire sales	8,935,689	7,455,218
Total merchandise sales	10,125,815	8,499,348
Others (including consultancy and management service fees, rental income and other operating revenues)	565,255	504,058
Total gross sales proceeds	<u>10,691,070</u>	<u>9,003,406</u>

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION

	For the year ended	
	31 December	
	2008	2007
	RMB'000	RMB'000
Sales of goods – direct sales	1,190,126	1,044,130
Commissions from concessionaire sales	1,781,551	1,511,498
Rental income	135,862	138,797
Consultancy and management service fees	29,873	32,558
Other operating revenues	<u>399,520</u>	<u>332,703</u>
Total operating revenues	<u>3,536,932</u>	<u>3,059,686</u>

Revenues are recognised to the extent that it is probable that the economic benefits of a transaction will flow to the Group. Revenues are categorised to include the sales of goods - direct sales, the commissions from concessionaire sales, the consultancy and management service fees, the rental income and the other operating revenues.

Over 90% of the Group's turnover and contribution to the operating profit is attributable to the operation and management of department stores, and is attributable to customers in the PRC and over 90% of the Group's operating assets are located in the PRC. Accordingly, no analysis of segment information is presented.

Note: Other operating revenues

	Notes	For the year ended	
		31 December	
		2008	2007
		RMB'000	RMB'000
Promotion income		80,994	78,972
Administration and credit card handling fees		186,034	150,019
Government grants	(i)	9,413	5,262
PRC tax compensations	(ii)	-	3,553
Other incomes		<u>123,079</u>	<u>94,897</u>
		<u>399,520</u>	<u>332,703</u>

Notes:

- (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.
- (ii) PRC tax compensations for year 2007 were granted to the Group for its reinvestment of dividend income from certain PRC group companies to establish new foreign investment enterprises in the PRC. There were no unfulfilled conditions or contingencies attaching to these PRC tax compensations.

5. PROFIT FROM OPERATIONS

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

	For the year ended	
	31 December:	
	2008	2007
	RMB'000	RMB'000
Cost of inventories recognised as expenses	982,042	865,721
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	187,435	186,336
Equity settled share option expenses	-	20,725
Pension scheme contributions	28,659	16,915
Social welfare and other costs	46,163	35,571
	<u>262,257</u>	<u>259,547</u>
Depreciation and amortisation	152,513	113,812
Operating lease rentals in respect of leased properties:		
Minimum lease payments *	253,168	218,923
Contingent lease payments **	125,372	105,836
	<u>378,540</u>	<u>324,759</u>
Loss on disposal of items of property, plant and equipment	1,190	2,766
Auditors' remuneration	4,812	4,000
(Reversal of Allowance) / Allowance for doubtful debts	(2,909)	918
Gross rental income in respect of investment properties	(20,997)	(25,444)
Sub-letting of properties:		
Minimum lease payments *	(58,374)	(52,205)
Contingent lease payments **	(56,491)	(61,148)
	<u>(114,865)</u>	<u>(113,353)</u>
Total gross rental income	<u>(135,862)</u>	<u>(138,797)</u>
Direct operating expenses arising on rental-earning investment properties	5,264	4,817
Foreign exchange losses, net	<u>2,237</u>	<u>807</u>

* Minimum lease payments of the Group include rental payments for the lease agreement with pre-determined rental payments and minimum guaranteed rental payments for lease agreements with contingent rental payments.

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

6. FINANCE COST, NET

	For the year ended	
	31 December	
	2008	2007
	RMB'000	RMB'000
Interest expenses on bank and other loans, wholly repayable within five years	(331,757)	(326,966)
Interest income	<u>245,747</u>	<u>253,161</u>
	<u>(86,010)</u>	<u>(73,805)</u>

7. INCOME TAX

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 operates.

An analysis of the provision for tax in the Financial Statements is as follows:

	For the year ended	
	31 December	
	2008	2007
	RMB'000	RMB'000
Current income tax	251,675	240,134
Deferred income tax	<u>(3,917)</u>	<u>(24,683)</u>
	<u>247,758</u>	<u>215,451</u>

8. EARNINGS PER SHARE

On 4 July 2008, the Company's shareholders approved the subdivision of every one existing issued and unissued share of HK\$0.10 each in the share capital of the Company into 5 subdivided shares of HK\$0.02 each ("Share Subdivision"). The Share Subdivision took effect on 7 July 2008. Accordingly, the calculation for both the basic earnings per share and the diluted earnings per share for the year ended 31 December 2008 and the comparative period for the year 2007 takes into account the effects from the Share Subdivision.

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB841,142,000 and the weighted average number of 2,789,549,340 subdivided shares in issue during that year.

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB676,000,000 and the weighted average number of 2,769,680,925 subdivided shares in issue during the year.

The calculation of diluted earning per share takes into account on the effects of employee share options granted on the 10 January 2007.

9. PROPOSED FINAL DIVIDENDS

The Board of Directors recommended the payment of a final dividend for the year of 2008 of RMB0.085 (2007:RMB0.076 per share after adjusting the effect from the Share Subdivision) in cash per share. The Company declared and paid an interim dividend of RMB0.060 (2007: RMB0.044 per share after adjusting for the effect from the Share Subdivision) in cash per share. On the assumption that the approval is obtained during the forthcoming annual general meeting for the payment of the proposed final dividends, the Company shall be paying a full year dividends of RMB0.145 (2007:RMB0.120 per share after adjusting for the effect from the Share Subdivision) in cash per share for the year 2008, representing approximately 48.0% of the 2008's net profit attributable to the Group. The final 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 22 May 2009.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividends will be payable on or about 30 June 2009 to the shareholders whose name appears on the Register of Members of the Company at close of business on 22 May 2009.

10. TRADE RECEIVABLES

Trade receivables are mainly consultancy and management service fees receivables from the "Parkson" and "Xtra" branded managed stores. The Group generally allows a credit period of not more than 90 days. A provision for doubtful debts is made when it is considered that the trade receivables may not be recoverable.

An aged analysis of the trade receivables is as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Within 3 months	12,360	11,822
3 to 12 months	1,722	2,064
Over 1 year	6,877	6,705
	<u>20,959</u>	<u>20,591</u>
Less: Allowance for doubtful debts	<u>-</u>	<u>(1,617)</u>
	<u>20,959</u>	<u>18,974</u>

Included in the balance were trade receivables from jointly-controlled entities of RMB517,000 (2007: RMB852,000) and from fellow subsidiaries of RMB9,488,000 (2007: RMB9,994,000) which are attributable to the management and consultancy fee income of the Group. Such balances were unsecured and interest-free.

11. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Within 3 months	1,259,753	1,086,409
3 to 12 months	51,806	46,724
Over 1 year	14,199	11,583
	<u>1,325,758</u>	<u>1,144,716</u>

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from 19 May 2009 to 22 May 2009 (both dates inclusive), during such period no transfer of shares will be registered. In order to qualify for the proposed final dividends, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4.00pm 18 May 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Review

The year 2008 has proven to be extraordinary and very challenging for every economy and every industry globally. The unprecedented financial crisis started by the sub prime lending in the developed economies has not only weakened the global capital markets and banking industry but has also negatively affected the main street economy. The rippling effects from the financial crisis on the world economy include the bankruptcy and recapitalisation of some major financial institutions, the collapse of housing and property markets, the surge of unemployment rate, fall of commodity prices and recession of the developed economies. The PRC economy is not immune from the crisis but the damage is comparatively less severe.

With supports from its healthy banking system, robust domestic consumption market and effective monetary and fiscal policy, the PRC economy for the year under review expanded by a very respectable estimated growth rate of 9.0% despite the macro headwinds. The growth rate has been the slowest in the past 5 years and in line with the deepening crisis in the second half of the year, the PRC economy expanded by less than 8.0% in the second half of the year compared to 10.4% in the first six months of the year.

Despite slower economic growth rate, the PRC economy continued to generate new middle class families to support the growth of the domestic consumption market. In line with the PRC government's efforts to encourage domestic consumption as the main pillar of the economic growth going forward, the retail industry continued to outgrow the economy expansion for the year 2008 with a nominal growth rate of 21.6% and real growth rate of 15.7%.

During the year under review, the Group executed its stated business plans and strategies to capitalize on the growing retail market with satisfactory successes. Through out the year, the Group stayed in touch with the challenging and fast changing operating environment and made necessary adjustment to our operating strategies whenever possible. The Group recorded a composite SSS growth of 12.1%, through a combination of improved productivity from the more efficient use of the available floor space and the increase sales and promotion activities.

In line with the maturity of its stores profile, the Group continued to reinvent and remodel its stores to further enhance the stores image and performance. In this respect, certain potential flagship stores such as the Kunming store, Xi'an Shidai store and Anshan store have been remodeled and reinvented to prepare for the introduction of more affordable high end cosmetics and fashion brands. In order to maximise the productivity of the existing floor space, we continuously monitor the use of floor space and relocate the premium and high-traffic floor space to high-value and high productivity merchandises whenever opportunities arise.

Both the concessionaire sales and direct sales demonstrated consistent growth of 19.9% and 14.0% respectively. The maturing stores portfolio enables the Group to increase the sales of fashion and fashion related merchandises through the concessionaire model. As a result, the concessionaire sales outgrew the direct sales and accounted for approximately 88.2% of the total merchandise sales.

The Group continued to open new stores to strengthen our operation and network and to further consolidate our position as one of the leading department store owners and operators in this fast growing market. During the year under review, the Group opened the Guiyang Phoenix Store in the month of February, the Shanghai Xinzhuang Store in the month of October and the Zunyi store in the month of December. In May 2008, the Group entered into an agreement to acquire from PHB the 100% interest of Tianjin Parkson managed store and the 70% controlling interest of the Nanning Parkson managed store, the transaction was successfully completed in October 2008. In aggregate, the Group added a total of approximately 111,200 square meters of retailing space to the portfolio of our self-owned stores. As at the end of the year 2008, the Group managed and operated a total of approximately 991,500 square meters of retailing space with approximately 760,000 square meters for self-owned stores and approximately 231,500 square meters for managed stores.

On the merger and acquisition (“M&A”) front, the Group continued to execute its stated strategy to buy out the minority shareholders of the self-owned stores. In March 2008, the Group entered into an agreement to acquire the remaining 49% interest in the operation of our jointly controlled entity Xi’an Shidai Parkson, the transaction was successfully completed in August 2008. In July 2008 we entered into an agreement to acquire the remaining 9% interest in Xi’an Lifeng Parkson, the transaction was successfully completed in August 2008 and the Group now own 100% of all our operation in Xi’an city. In August 2008 we entered into an agreement to acquire the remaining 30% interest in the Nanning Parkson store, the transaction was successfully completed in October 2008.

During the year under review the Group continued to explore opportunity for acquisition that meet its strategic initiatives and return on capital requirements. Subsequent to the year ended 31 December 2008, the Group entered into sales and purchase agreements to acquire a shopping complex known as Suntrans Building located in the Chaoyang District in the city of Beijing with a plan to open a full fledge shopping destination that include merchandise offering, entertainment services and amenities services. The store is expected to commence operation before the end of the year 2009.

In line with our strategy of rationalizing the operation to maximize productivity, we have closed two small stores, one each in Beijing and Changsha (“Discontinued Stores”) in the first quarter of the year 2008 upon expiry of the relevant lease agreements as the size of those stores, each less than 10,000 square meters of operating area is no longer productive for the current operating environment. We have decided to concentrate our resources to operate stores with larger floor space to maximise productivity.

The Group continued to look for new location for the expansion of our business. During the period under review, the Group executed additional lease agreements in preparation of new store opening in the year 2009 and together with the Suntrans Building, the Group is expected to add total retailing space of at least 120,000 square meters to our existing portfolio in the year 2009.

Prospect

The rippling effects from the financial crisis and the uncertainties on the effectiveness of steps and measures taken by the governments around the world to arrest the deepening of the financial crisis will continue to impact the world economy in the coming year. The PRC economy will face considerable challenges as the export sector which is one of the main pillars of the economy will likely to face contraction in the coming year as demand from major export markets continue to decline. The PRC government had used and is expected to continue using a combination of the monetary and fiscal policy to mitigate the negative impacts to the economy from the slow down of the export sector. .

Monetary policies such as the interest rate cut, the reduction of bank reserve ratio and the tax rate adjustment have been introduced to spur consumption and fiscal policy such as additional public spending on infrastructure projects, environmental projects, medical care projects and educational projects have been and will continue to be launched to create economic activities and jobs. The measures and policies introduced so far might not be able to totally eliminate the negative impacts to the economy from the slow down of the export sector but it should at least mitigate the impacts and strengthen the PRC economic fundamental and make it more resilient to the fast changing external environment.

Looking forward, we believe that the macro headwinds will continue in the immediate term but this storm together with its rippling effects will eventually go away. We believe that our business growth in the immediate term will be very challenging but we remain cautiously optimistic about the medium to long term prospect of the PRC economy and retail industry. We believe that strong foreign exchange reserve, solid economic foundation and carefully designed macro-economic policies should enable the PRC economy to ride through this storm comfortably and emerge even stronger than before.

The Group growth priorities will continue to focus on the long term while maintaining the short term performance in line with the market condition. We will continue to make improvement to our operation and seek opportunities to leverage on current economy crisis to implement our expansion strategy to prepare the Group for the next growth cycle. We will continue to introduce innovative and timely promotion to increase our market share and to focus on cost rationalisation exercise to improve operating leverage. On an annual basis, we will add approximately 15% to 20% of operating area to our existing portfolio through a combination of opening new stores and M&A activities, especially in cities or existing markets which we already have a presence with strong brand equity and also in relatively affluent cities or new markets to further expand our network and enhance our brand image. The Group will also continue to pursue the acquisition of the minority interests of our existing subsidiaries to enhance our shareholders' returns and also continue to pursue opportunities for third party acquisition that meet our strategic initiatives and return on capital requirements. In this respect, the opportunities to be considered include the acquisition of competitor stores and the properties currently occupied by our flagship stores or properties which have the potential to be developed into a flagship store.

The development of customer loyalty and the further enhancement of the Parkson brand equity will continue to be our main focus. We will persist on our operational strategy on improving the productivity and profitability of our existing stores. We strive to continue our proven business model and to reinvent and upgrade our stores when time is right. We will make alteration to the merchandise mix and brand mix in line with the development in each individual market where we operate and increase the range of products and brands in our stores to provide our customers with more choices, lower prices and greater value merchandises.

We are confident in our business plans and strategies and believe that the Group is well-positioned to consolidate our leadership position and emerge stronger after the storm is over.

Financial Review

Total gross sales proceeds and operating revenues

During the period under review, the Group generated a total gross sales proceeds received or receivable of RMB10,691.1 million (comprises of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues). Total gross sales proceeds for the period represent a growth of 18.7% or RMB1,687.7 million from RMB9,003.4 million reported in the same period of last year mainly due to i) the SSS growth of approximately 12.1%, ii) the inclusion of the full year sales performance of the new stores opened and acquisitions completed in the year 2007 and iii) the inclusion of the sales performances of the acquisitions completed and new stores opened in the year 2008. The growth was however partly offset by the closure of the Discontinued Stores since the beginning of the year 2008 and the reduction in the consultancy and management service fees due to lesser managed stores within the Group's portfolio.

The Group generated total merchandise sales of approximately RMB10,125.8 million. The concessionaire sales contributed approximately 88.2% and the direct sales contributed the balance of 11.8%. The Fashion & Apparel category made up approximately 48.7% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 32.8%, the Household & Electrical category contributed approximately 8.1% and the balance of approximately 10.4% came from the Groceries and Perishables category.

Commission rate from concessionaire sales was within management's expectation at 19.9%, dropped marginally by 0.4% compared to the same period of last year due to the additional discount given away in the second half of the year to drive sales. Direct sales margin improved marginally by 0.4% to 17.5% compared to the same period last year due to strong growth in the cosmetics sales which carry higher margin.

Total operating revenues of the Group for the year under review grew by RMB477.2 million to RMB3,536.9 million or 15.6% from the numbers reported in the same period of last year. The growth rate was in line with the growth of the total gross sales proceeds and partially offset by the closure of the Discontinued Stores and the reduction of the consultancy and management service fees.

Operating Expenses

Purchase of goods and change in inventories

The purchase of goods and change in inventories refer to the cost of sales for the direct sales. In line with the increase of direct sales, the cost of sales rose to RMB982.0 million, an increase of RMB116.3 million or 13.4% from RMB865.7 million recorded for the same period of last year.

Staff costs

Staff costs dropped by RMB3.5 million or 1.3% to RMB264.6 million, the reduction was largely contributed by i) the absence of the employee share option cost; (ii) the reduction of incentives payable to senior management; (iii) the reduction of bonus payable; and iv) saving of staff costs in relation to the Discontinued Stores. The reduction was partly offset by i) the inclusion of the full year staff costs of the new stores opened and acquisitions completed in the year 2007; and ii) the inclusion of the staff costs for new stores opened and acquisitions completed in the year 2008.

As a percentage to total operating revenues, the staff cost decreased to 7.5% from 8.8% recorded last year.

Depreciation and Amortisation

Depreciation and amortisation increased by RMB38.7 million or 34.0% to RMB152.5 million, the increase was primarily contributed by the i) the inclusion of full year depreciation and amortisation cost of the new stores opened and acquisitions completed in the year 2007; ii) inclusion of depreciation cost in relation to the Anshan Parkson property; iii) the inclusion of depreciation and amortisation cost for the acquisitions completed and new stores opened during the year; and iv) additional depreciation cost in relation to the remodeled stores..

As a percentage to total operating revenues, depreciation and amortisation cost rose to 4.3% from 3.7% reported for the same period of last year due to the aforesaid reasons.

Rental Expenses

Rental expenses grew by RMB53.8 million or 16.6% to RMB378.5 million, the increase was largely due to the inclusion of full year rental cost for the acquisitions completed and new stores opened in the year 2007 and the inclusion of rental cost for the acquisitions completed and new stores opened during the year. The increase was also partly due to the increase payment of contingent rent for the performance related lease agreements. The increase of rental cost was however partially offset by the saving of rental from the Discontinued Stores and the saving of rental for the Anshan Parkson property which is now self-owned.

As a percentage to total operating revenues, the rental expenses increased marginally to 10.7% from 10.6% recorded in the same period of last year.

Other Operating Expenses

Other operating expenses which consist of mainly the utilities cost, marketing and promotional cost, credit card handling expenses, property management cost, pre-opening expenses of new stores and general administrative cost rose by RMB77.3 million or 16.4% to RMB548.0 million due primarily to i) the inclusion of pre-opening expenses for new stores opened in the year 2008, in particular for the last quarter of the year; ii) the inclusion of the full year other operating expenses for the new stores opened and acquisitions completed in the year 2007; iii) the inclusion of other operating expenses for the acquisitions completed and new stores opened in the year 2008; iv) additional sales tax and rental tax for rental income in relation to the Anshan Parkson property and (v) the closure cost in relation to the Discontinued Stores.

As a percentage to operating revenues, the ratio increased marginally by 0.1% to 15.5%.

Profit from Operations

Profit from operations rose to RMB1,211.2 million, an improvement of RMB194.6 million or 19.1%, this is generally in line with the growth of operating revenues. Despite a lower same store sales growth, marginal concessionaire rate contraction and one off expenses in relation to the closure of the Discontinued Stores, the Group continued to enjoy operating margin expansion due to the introduction of the cost rationalisation exercise to control the operating expenses. Profit from operations as a percentage to operating revenues improved by 1.0% to 34.2%.

Finance Cost, net

In November 2006, we entered into a financing arrangement which involved issuance of high yield notes, a subscription of credit link notes with the proceeds of the high yield notes and drawdown of on shore commercial loans (collectively “Structure Financing”) to obtain funding for our operating entities in the PRC for business expansion. The effect from the Structure Financing and the interest expense from the additional high yield notes issued in the month of May 2007 (“HYN 07”) had resulted in a net interest expense of RMB86.0 million to the group for the period under review compared to net interest expense of RMB73.8 million recorded in the year 2007.

Share of Profit from an Associate

This is the share of profit from Shanghai Nine Sea Lion Properties Management Co. Ltd, an associate of the Company, the share of profit increased from RMB535,000 in the year 2007 to RMB975,000 in the year 2008 due to increase of management income received.

Income Tax

The Group’s income tax expense increased by RMB32.3 million or 15.0% to RMB247.8 million due to the increase of profit before income tax and the 5% withholding tax provided in the last quarter of the year for the anticipated dividend distribution to the Company by the PRC subsidiaries from the distributable profit for the year 2008. The effective tax rate was 22.0%, marginally lower by 0.8% from the same period of last year.

Net Profit for the year

In line with the increase in revenue, the net profit for the year increased to RMB878.4 million, an improvement of RMB150.6 million or 20.7%. The net profit margin as a percentage to operating revenues improved by 1.0% to 24.8% from 23.8% recorded in the same period of last year due to the higher operating profit margin and lower effective tax rate, however it was partially offset by the higher net interest expense incurred on the Structure Financing and the HYN07.

Profit Attributable to the Group

Profit attributable to the Group increased to RMB841.1 million, an increase of RMB165.1 million or 24.4%. This is in line with the increase in operating revenues and the profit from operations.

Liquidity and Financial Resources

The cash and short term deposits balance of the Group stood at RMB3,031.5 million as at the end of December 2008, representing an increase of 6.0% from the balance of RMB2,860.2 million recorded as at the end of December 2007. The increase was mainly due to the (i) the positive cash flow of RMB1,292.2 million generated from the operating activities; (ii) repayment of entrusted loan of approximately RMB120 million in relation to the Nanchang Parkson acquisition; and (iii) the decrease of investment in principal guaranteed deposits of approximately RMB211.3 million. The increase was however partially offset by (i) payment of dividends of approximately RMB378.2 million to the shareholders of the Company and payment of dividends of approximately RMB36.8 million to the minority shareholders of the Group's subsidiaries; (ii) payment of RMB450.0 million for the acquisition of the Anshan Parkson Property; (iii) payment of approximately RMB61.0 million for the acquisition of the remaining 49% minority interest in Xi'an Chang'an Parkson; (iv) payment of approximately RMB154.0 million for the acquisition of the remaining 49% minority interest in Xi'an Shidai Parkson; (v) payment of approximately RMB55.0 million for the acquisition of the remaining 9% minority interest in Xi'an Lifeng Parkson; (vi) payment of RMB180.0 million for the acquisition of 100% interest in Tianjin Parkson and Nanning Parkson; (vii) maintenance capital expenditures and new store opening capital expenditures of RMB167.8 million and (viii) repayment of bank loan of RMB87.9 million. Including the balance of investment in principal guaranteed deposits, the cash and cash equivalent of the Group amounted to RMB3,649.0 million, increase marginally by 0.2% from the balance of RMB3,641.7 million recorded as at the end of December 2007.

Total debt to total assets ratio of the Group expressed as a percentage of interest bearing loans and bank borrowings over the total assets was 26.1% as at 31 December 2008 after netting off the effects from the Structure Financing.

Current Assets and Net Assets

The Group's current assets as at 31 December 2008 was approximately RMB4,282.4 million, an increase of 2.5% or RMB103.0 million from the balance of RMB4,179.4 million recorded as at 31 December 2007. Net asset of the Group as at 31 December 2008 rose to RMB3,527.3 million, an increase of RMB659.2 million or 23.0% over the balance as at 31 December 2007.

Pledge of Assets

As at 31 December 2008, no asset is pledged with any bank or lender.

EMPLOYEES

As at 31 December 2008, total number of employees for the Group was approximately 6,800. The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

On 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees at nil consideration and with an exercise price of Hong Kong ("HK") \$36.75 per share pursuant to an employee share option scheme adopted on the 9 November 2005. The Company's shareholders had on 4 July 2008 approved the subdivision of every existing share of HK\$0.10 in the Company into 5 new subdivided shares of HK\$0.02 each, which subsequently took effect on 7 July 2008 ("Share Subdivision"). In conjunction therewith, on 7 July 2008, each outstanding share option of the Company had been adjusted to 5 share options and the exercise price had been adjusted to HK\$7.35 per share. Further information of the share options granted are set out below:

	Exercise Period	Share options granted *	Movement of the share options up to 31 December 2008		
			lapsed	exercised	outstanding
Lot 1	24 Jan 2007 – 23 Jan 2010	29,778,000	3,000	26,440,500	3,334,500
Lot 2	02 Jan 2008 – 01 Jan 2011	11,166,750	528,000	1,491,000	9,147,750
		<u>40,944,750</u>	<u>531,000</u>	<u>27,931,500</u>	<u>12,482,250</u>

* For the purpose of illustration, we have converted each share option granted on 10 January 2007 into 5 share options after taking effect of the Share Subdivision.

The fair value of the options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The 5,955,600 share options (29,778,000 share options after taking effect of the Share Subdivision) granted under Lot 1 are exercisable from 24 January 2007 to 23 January 2010 and have no other vesting conditions. The 2,233,350 share options (11,166,750 share options after taking effect of the Share Subdivision) granted under Lot 2 are exercisable from 2 January 2008 to 1 January 2011 and required an employee service period until 2 January 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2008.

MODEL CODE FOR 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"). The Directors have complied with the standard set out in the Model Code for the year ended 31 December 2008.

AUDIT COMMITTEE

An Audit Committee ("Committee") has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Committee has reviewed the Group's results of the year 2008. The Committee comprises the three independent non executive directors of the Company.

PUBLICATION OF FINAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of Stock Exchange and the Company. The annual report for the year containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published in the websites of the Stock Exchange and of the Company in due course.

ACKNOWLEDGEMENT

I would like to thank the Board, management and all our staffs for their hard works and dedication. I would also like to thank the shareholders and business associates for their strong support to the Group.

As at the date of this announcement, the Executive Directors of the Company are Mr. Cheng Yoong Choong, Mr. Chew Fook Seng, the Non-executive Directors is Tan Sri Cheng Heng Jem and the Independent non executive Directors are Mr. Studer Werner Josef, Mr. Ko Tak Fai, Desmond and Mr Yau Ming Kim, Robert.

On behalf of the Board
Parkson Retail Group Limited
Cheng Yoong Choong

Hong Kong, 20 February 2009