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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 2009

HIGHLIGHTS

Total Gross Sales Proceeds (“GSP”) increased by 15.7% to RMB12,367.5 million.

Same Store Sales ⁽¹⁾ (“SSS”) growth remains solid at 7.5%.

Profit from operations increased by 9.8% to RMB1,330.2 million.

Net profit attributable to the Group for the year grew 8.3% to RMB910.9 million.

Earnings per share was RMB0.325.

Proposed final dividends of approximately RMB280.7 million or RMB0.100 per share.

(1) Year on year change in total gross sales proceeds for stores in operation throughout the entire comparative period after adjusting for the impacts from the change of contractual relationship with certain suppliers of jewelry products and cigarette products from concessionaire contracts to lease agreements

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

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, 2009 with comparative figures for the year 2008 as follows:

CONSOLIDATED INCOME STATEMENT

		For the year ended	
		31 December	
	<i>Notes</i>	2009	2008
		<i>RMB'000</i>	<i>RMB'000</i>
Revenues			
Other operating revenues	4	3,461,266	3,137,412
	4	447,368	399,520
Total operating revenues		<u>3,908,634</u>	<u>3,536,932</u>
Operating expenses			
Purchases of goods and changes in inventories		(1,041,852)	(982,042)
Staff costs		(275,960)	(264,632)
Depreciation and amortization		(166,223)	(152,513)
Rental expenses		(500,354)	(378,540)
Other operating expenses		(594,052)	(548,040)
Total operating expenses		<u>(2,578,441)</u>	<u>(2,325,767)</u>
Profit from operations	5	1,330,193	1,211,165
Finance income / (cost), net	6	(107,004)	(86,010)
Share of profit from an associate		577	975
Profit from operations before income tax		<u>1,223,766</u>	<u>1,126,130</u>
Income tax	7	(286,412)	(247,758)
Net profit for the year		<u>937,354</u>	<u>878,372</u>
Attributable to:			
Owners of the parent		910,846	841,142
Minority interests		26,508	37,230
		<u>937,354</u>	<u>878,372</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic	8	<u>RMB0.325</u>	<u>RMB0.302</u>
Diluted		<u>RMB0.325</u>	<u>RMB0.301</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended	
	31 December	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	937,354	878,372
Net (loss)/gain on cash flow hedges	(120,430)	123,850
Exchange differences on translation of foreign operations	1,453	(16,117)
Other comprehensive (loss)/income for the year, net of tax	<u>(118,977)</u>	<u>107,733</u>
Total comprehensive income for the year, net of tax	<u>818,377</u>	<u>986,105</u>
Attributable to:		
Equity holders of the parent	791,869	948,875
Minority interests	<u>26,508</u>	<u>37,230</u>
	<u>818,377</u>	<u>986,105</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December	
		2009	2008
		<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		2,445,354	1,306,004
Investment properties		168,564	216,840
Lease prepayments		398,310	409,390
Intangible assets		2,101,506	2,101,998
Investment in an associate		2,232	2,500
Other assets		58,516	106,137
Held-to-maturity investments, unlisted		1,365,640	1,366,920
Deferred tax assets		41,586	41,902
Total non-current assets		<u>6,581,708</u>	<u>5,551,691</u>
CURRENT ASSETS			
Inventories		179,911	187,890
Trade receivables	10	28,655	20,959
Prepayments and deposits		194,173	166,743
Other receivables		233,554	257,819
Investment in principal guaranteed deposits		809,170	617,540
Cash and short-term deposits		<u>3,046,929</u>	<u>3,031,474</u>
Total current assets		<u>4,492,392</u>	<u>4,282,425</u>
CURRENT LIABILITIES			
Trade payables	11	(1,526,436)	(1,325,758)
Customers' deposits		(688,186)	(440,499)
Other payables and accruals		(778,369)	(550,953)
Tax payable		(80,439)	(91,183)
Senior guaranteed notes due May 2012, redeemable from May 2010		(845,089)	-
Derivative financial instruments designated as hedging instruments		(93,011)	-
Total current liabilities		<u>(4,011,530)</u>	<u>(2,408,393)</u>
NET CURRENT ASSETS		<u>480,862</u>	<u>1,874,032</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,062,570</u>	<u>7,425,723</u>

	As at 31 December	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(1,303,000)	(1,333,000)
Long term payables	(105,891)	(97,236)
Deferred tax liabilities	(249,192)	(246,186)
Senior guaranteed notes due November 2011	(1,353,033)	(1,348,302)
Senior guaranteed notes due May 2012, redeemable from May 2010	-	(842,605)
Derivative financial instruments designated as hedging instruments	(59,309)	(31,089)
Total non-current liabilities	<u>(3,070,425)</u>	<u>(3,898,418)</u>
NET ASSETS	<u>3,992,145</u>	<u>3,527,305</u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	58,297	58,133
Reserves	3,581,059	3,150,707
Proposed final dividends	280,722	237,822
	<u>3,920,078</u>	<u>3,446,662</u>
Minority interests	72,067	80,643
TOTAL EQUITY	<u>3,992,145</u>	<u>3,527,305</u>

NOTES

1. CORPORATE 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 2009 (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	
	2009	2008
	RMB'000	RMB'000
Sales of goods – direct sales	1,253,143	1,190,126
Concessionaire sales	10,480,916	8,935,689
Total merchandise sales	11,734,059	10,125,815
Others (including consultancy and management service fees, rental income and other operating revenues)	633,435	565,255
Total gross sales proceeds	12,367,494	10,691,070

4. TOTAL OPERATING REVENUES AND SEGMENT INFORMATION

	For the year ended	
	31 December	
	2009	2008
	RMB'000	RMB'000
Sales of goods – direct sales	1,253,143	1,190,126
Commissions from concessionaire sales	2,022,056	1,781,551
Rental income	158,822	135,862
Consultancy and management service fees	27,245	29,873
Other operating revenues	447,368	399,520
	<u>3,908,634</u>	<u>3,536,932</u>
Total operating revenues	<u>3,908,634</u>	<u>3,536,932</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.

Segment information

For management purposes, the Group has a single operating and reportable segment – the operation and management of department stores in the PRC. All revenues from external customers are generated in the PRC and all significant operating assets of the Group are located in the PRC.

Note: Other operating revenues

	For the year ended	
	31 December	
	2009	2008
Notes	RMB'000	RMB'000
Promotion income	66,362	80,994
Administration and credit card handling fees	209,201	186,034
Government grants (note)	12,638	9,413
Other incomes	159,167	123,079
	<u>447,368</u>	<u>399,520</u>
	<u>447,368</u>	<u>399,520</u>

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.

5. PROFIT FROM OPERATIONS

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

	For the year ended	
	31 December	
	2009	2008
	RMB'000	RMB'000
Cost of inventories recognised as expenses	1,041,852	982,042
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	181,211	187,435
Pension scheme contributions	30,120	28,659
Social welfare and other costs	62,016	46,163
	<u>273,347</u>	<u>262,257</u>
Depreciation and amortisation	166,223	152,513
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	310,495	253,168
Contingent lease payments *	189,859	125,372
	<u>500,354</u>	<u>378,540</u>
Loss on disposal of items of property, plant and equipment	1,585	1,190
Auditors' remuneration	5,767	4,812
Gross rental income in respect of investment properties	(19,846)	(20,997)
Sub-letting of properties:		
Minimum lease payments #	(61,404)	(58,374)
Contingent lease payments *	(77,572)	(56,491)
	<u>(138,976)</u>	<u>(114,865)</u>
Total gross rental income	<u>(158,822)</u>	<u>(135,862)</u>
Direct operating expenses arising on rental-earning investment properties	5,264	5,264
Foreign exchange differences, net	176	2,237

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	
	2009	2008
	RMB'000	RMB'000
Interest expenses on bank and other loans, wholly repayable within five years	(317,980)	(331,757)
Interest income	<u>210,976</u>	<u>245,747</u>
	<u>(107,004)</u>	<u>(86,010)</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	
	2009	2008
	RMB'000	RMB'000
Current income tax	283,090	251,675
Deferred income tax	<u>3,322</u>	<u>(3,917)</u>
	<u>286,412</u>	<u>247,758</u>

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the net profit attributable to equity shareholders of the Company for the year of approximately RMB910,846,000 and the weighted average number of 2,802,528,953 shares in issue during that year.

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 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 DIVIDEND

The Board of Directors recommended the payment of a final dividend for the year of 2009 of RMB0.100 (2008:RMB0.085) in cash per share. The Company declared and paid an interim dividend of RMB0.050 (2008: RMB0.060) 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 dividend, the Company shall be paying a full year dividend of RMB0.150 (2008:RMB0.145) in cash per share for the year 2009, representing approximately 46.3% of the 2009'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 17 May 2010.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividend will be payable on or about 30 June 2010 to the shareholders whose name appears on the Register of Members of the Company at the close of business on 17 May 2010.

	For the year ended	
	31 December	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
DIVIDEND		
Interim	141,000	167,248
Proposed final	280,722	237,822
	<hr/>	<hr/>
	421,722	405,070
	<hr/>	<hr/>
DIVIDEND PER SHARE		
Interim	RMB0.050	RMB0.060
Proposed final	RMB0.100	RMB0.085
	<hr/>	<hr/>
	RMB0.150	RMB0.145
	<hr/>	<hr/>

10. TRADE RECEIVABLES

Trade receivables are mainly consultancy and management service fees receivables from the “Parkson” and “Xtra” branded managed stores. 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	
	2009	2008
	RMB'000	RMB'000
Within 3 months	5,888	12,360
3 to 12 months	14,389	1,722
Over 1 year	8,378	6,877
	<u>28,655</u>	<u>20,959</u>

Included in the balance were trade receivables from jointly-controlled entities of RMB701,181 (2008: RMB517,000) and from fellow subsidiaries of RMB13,503,000 (2008: RMB9,488,000) which 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	
	2009	2008
	RMB'000	RMB'000
Within 3 months	1,421,925	1,259,753
3 to 12 months	79,379	51,806
Over 1 year	25,132	14,199
	<u>1,526,436</u>	<u>1,325,758</u>

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from 12 May 2010 to 17 May 2010 (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 4.30pm 11 May 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Review

In the year 2009 the world economy experienced unseen level of volatility from the fear of a collapse to the optimism of a strong recovery. One of the worst financial crises for decades that started in the second half of the year 2008 had slowed down business activities and caused economic contraction in most major economies. This had prompted concerted efforts from the government of the leading economies to introduce aggressive monetary policies and fiscal stimulus packages to stabilize the financial market and to avoid deepening of the crisis. The efforts appeared to be paying off in the second half of the year with majority of the financial and economic indicators suggesting that the economic condition in most major economies improving with a selective major economies returning to growth, and the momentum of growth continue to improve.

The PRC economy continues to outperform the other major economies and should be the only major economy that reported a full year Gross Domestic Product (“GDP”) growth for the year 2009. Unlike most of the other major economies that reported significant contraction in GDP for the first half of the year, the PRC economy expanded by 7.1% during the same period, one of the slowest growth rates for almost a decade. In line with the recovery in the world economy, the momentum of PRC economic growth picked up in the third and fourth quarter to record a full year GDP growth of 8.7% fueled by steady growth in the domestic consumption market and sharp increase in the infrastructure spending and fixed asset investments.

In anticipation of the slower demands from the major export markets, the PRC government implemented various monetary policies and fiscal stimulus packages to drive domestic consumption and to stimulate the economy. Amid these aggressive macro policies, the fixed asset investments increased by an astonishing 30.1% during the year and the domestic consumption expanded steadily by a real growth rate of 16.9% despite slower personal income growth during the same period.

Despite the macro headwinds and increasing supplies of retail spaces in selective markets, the Group successfully implemented its business expansion plans and strategies to capitalise on the growing retail market and to consolidate its leadership position. The Group achieved a total GSP growth of 15.7% with a SSS growth of 7.5%. In line with the gradual recovery of the economic growth in the PRC, the SSS growth improved from 6.9% in the first half of the year to 8.2% in the second half of the year and merchandise gross margin improved from 18.8% in the first half of the year to 19.2% in the second half of the year. During the year under review, the Group added 3 new stores with total retailing spaces of approximately 80,000 square meter or approximately 11.0% of the total retailing space at the beginning of the year. The space addition fall short of the Group’s target of 15% a year as the opening of the Suntrans shopping mall in Chaoyang district of Beijing city has been pushed forward to first half of the year 2010 due to the delay in completion and delivery of the property.

The Group continued to reinvent and remodel its flagship stores to further enhance the stores image and to improve productivity with more efficient use of the available floor space. In this respect, the ground floor of Taiyuan Parkson store was refurbished with premium international cosmetic brands introduced to the market, the Wuxi store was also refurbished with new accessories brands and niche cosmetic brands introduced to the market and the Beijing Parkson store in financial district was remodeled with updated fashion brands and niche cosmetic brands introduced to our customers. Our stores in Hefei, Nanning, Shanghai and Xi'an are targeted for similar exercises this year.

The maturing store profile enables the Group to increase the sales of fashion and fashion related merchandise through the concessionaire model. During the year under review, the concessionaire sales continued to outgrow the direct sales with an increase of 17.3% and accounted for approximately 89.3% of the total merchandise sales and the direct sales increased by 5.3% and accounted for approximately 10.7% of the total merchandise sales.

The Group continued to source for good locations in preparation for new stores opening. During the year under review, the Group took advantage on the down cycle of the property market in the month of January 2009 to acquire the Suntrans shopping mall in Chaoyang District of Beijing with an intention to open a full-fledged shopping destination that includes exciting merchandise offerings, entertainment and pampering amenities and services. In addition, the Group signed 4 new lease agreements during the year in preparation for stores opening in the year 2010.

Prospect

The recent economic and financial market indicators appeared to be supporting the general view that the worst of this economic crisis is over and recovery has started. However, most of the economists are divided as to the pace and scale of recovery going forward but majority agrees that the economic recovery is still in the early stage and relatively fragile; lingering problems such as high unemployment rate, weak consumer demands and volatile equity markets will continue to pose challenges to the recovery.

It is undeniable that the heavy fiscal spending and increasing monetary supplies around the world have been instrumental in turning around the world economy. However, continuing such aggressive expansionary fiscal policies and loose monetary policies beyond the needs will cause excess capacity, liquidity driven asset bubble, uncontrollable inflation and eventually result in structural damages to the economic system. Reduction in unemployment rate and recovery in private consumption and private investment will be the key to ensure sustainable economic recovery going forward.

With the improving macro economic outlooks, the PRC government is now facing a delicate task of maintaining a balance between the pace of recovery of its economic growth and the inevitable need to gradually make adjustments to its expansionary fiscal policies and tighten its monetary policies. Comparatively, the PRC economy has been far more resilient during the crisis and structurally appeared to be healthier than any other major economies. The sustainable recovery of its economic growth in the short term will however depend on the recovery of its export sector and the continuous growth of its domestic consumption market, while the sustainability of PRC economic growth on a medium to longer term will depend on the success of its strategy to transform the economic growth model from export and fixed asset investment driven to domestic consumption driven.

Looking forward, the Group believes that the PRC economy is on the right track to a sustainable recovery of its growth but the road for further recovery of its growth is expected to be bumpy and challenging. Overcapacity in selected industries, asset bubble and worry on uncontrollable inflation will inevitably lead to adjustment in its fiscal policies and tightening of its monetary policies which will pose challenges and uncertainties to the economy. Nevertheless, in line with the improving macro outlooks, the Groups business growth should continue to demonstrate gradual improvement going forward and the momentum will pick up on the back of a continuous real economic growth and real income growth.

The Group will continue to reinvent and remodel its existing stores and implement its expansion strategy to prepare the Group for the next growth cycle. On the back of the increase momentum on the real economic recovery, the Group will focus on improving its market share and merchandise gross margin through better merchandise offering and introducing more innovative and more targeted sales and promotion. Cost rationalization will be enhanced to further improve operating efficiency as the Group strives to deliver positive operating margin expansion going forward.

The Group will continue to add on average 15% new operating area to its portfolio annually through opening new stores and merger and acquisition activities. The Group will focus on cities or existing markets which it has established a presence with strong brand equity but attention will also be given to relatively affluent cities or new markets in order to further expand its network and brand image. The acquisition of the minority interests of existing subsidiaries and controlling interest of managed stores as well as opportunities for third party acquisition that meet the Group's strategic initiatives and return on capital requirements will continue to be pursued to enhance shareholders' returns. This would include the acquisition of competitor stores and the properties currently occupied by the Group's flagship stores or properties which have the potential to be developed into a flagship store.

The Group will leverage on its huge customer base from the existing Parkson Loyalty Card program for further development of customer loyalty and further enhancement of the Parkson brand equity. The Group will continue to improve its proven business model, reinvent and upgrade the stores and make necessary changes to the merchandise mix and brand mix in line with the development in each individual market where the Group operates.

Financial Review

Total gross sales proceeds and operating revenues

The Group recorded a total gross sales proceeds received or receivable of RMB12,367.5 million (comprises of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues) during the year under review representing a growth of 15.7% or RMB1,676.4 million. The key contributors to the growth include (i) SSS growth of approximately 7.5%, (ii) inclusion of the full year sales performance of the new stores opened and acquisitions completed in the year 2008 and (iii) the inclusion of the sales performances for the new stores opened in the year 2009.

SSS growth declined to 7.5% for the year 2009, representing a drop of 4.6% compared to SSS growth of 12.1% recorded in the year 2008 due to the negative impacts from the financial crisis. However, in line with the bottoming of the crisis and the gradual recovery of the economy and consumer sentiment in the second half of the year, the Group's SSS growth demonstrated sequential improvement from 6.9% recorded in the first 6 months ended June to 7.5% recorded for the quarter ended September and 8.7% for the quarter ended December.

The Group generated total merchandise sales of approximately RMB11,734.1 million. The concessionaire sales contributed approximately 89.3% and the direct sales contributed the balance of 10.7%. The Fashion & Apparel category made up approximately 48.6% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 34.8%, the Household & Electrical category contributed approximately 7.8% and the balance of approximately 8.8% came from the Groceries and Perishables category.

The merchandise gross margin (a combination of the concessionaire commission and the direct sales margin) contracted marginally by 0.6% due to heavier discount and promotional activities during the year. However in line with the recovery of the economy and consumer sentiment, the year on year contraction of the merchandise gross margin narrowed in the second half of the year. Sequentially, the year on year contraction of merchandise gross margin narrowed from 0.9% recorded in the first 6 months ended June to 0.4% for the quarter ended September and 0.3% for the quarter ended December.

Total operating revenues for the year grew by RMB371.7 million or 10.5% to RMB3,908.6 million. The growth rate of operating revenues was lower than the growth rate of the total gross sales proceeds due to the lower concessionaire rate and the negative growth of the management and consultancy fees in line with the reduction on the number of managed stores.

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 RMB1,041.9 million, an increase of 6.1% or RMB59.8 million.

Staff costs

Staff costs increased by RMB11.3 million or 4.3% to RMB276.0 million, the increase was due to (i) the inclusion of the full year staff costs for the new stores opened and stores acquired in the year 2008; (ii) the inclusion of staff costs for new stores opened in the year 2009; and (iii) the lower base for staff costs in the year 2008 due to the reversal of bonus and incentive provision.

As a percentage to total operating revenues, the staff cost ratio decreased to 7.1% from 7.5% recorded last year.

Depreciation and Amortization

Depreciation and amortization increased by RMB13.7 million or 9.0% to RMB166.2 million, the increase was primarily contributed by (i) the inclusion of full year depreciation and amortization cost of the new stores opened and acquisitions completed in the year 2008; (ii) the inclusion of depreciation and amortization cost for the new stores opened during the year; and (iii) additional depreciation cost in relation to the remodeled stores.

As a percentage to total operating revenues, depreciation and amortization cost ratio remains flat at 4.3%.

Rental Expenses

Rental expenses increased by RMB121.8 million or 32.2% to RMB500.4 million, the substantial increase was largely due to (i) the inclusion of full year rental cost for the acquisitions completed and new stores opened in the year 2008; (ii) the inclusion of rental cost for new stores opened during the year; (iii) the increase payment of contingent rent for the performance related lease agreements; and (iv) the straight line accounting treatments for the new stores opened in the year 2008 and 2009 and managed stores acquired in the year 2008.

Due to the aforesaid reasons, as a percentage to total operating revenues, the rental expenses ratio increased substantially to 12.8% from 10.7% 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 RMB46.0 million or 8.4% to RMB594.0 million due primarily to (i) the inclusion of pre-opening expenses for new stores opened in the year 2009, in particular for the second half of the year; (ii) the inclusion of the full year other operating expenses for the new stores opened and acquisitions completed in the year 2008 and (iii) the inclusion of pre opening expenses for the new stores opened in the year 2009.

As a percentage to operating revenues, the other operating expenses ratio decreased marginally by 0.3% to 15.2%.

Profit from Operations

Profit from operations rose to RMB1,330.2 million, an increase of RMB119.0 million or 9.8%, this is marginally lower than the growth of operating revenues mainly due to the substantial increase in rental cost.

Profit from operations as a percentage to operating revenues decreased marginally by 0.2% to 34.0%.

Finance Cost, net

The Group incurred total interest expenses of RMB318.0 million for the year, a reduction of 4.2% compared to the same period of last year due to repayment of borrowings. Interest incomes reduced to RMB211.0 million for the year, a reduction of 14.1% due to the lower deposit rate.

Due to the aforesaid reasons, the net finance costs (total interest expenses net of interest incomes) increased by RMB21.0 million or 24.4% to RMB107.0 million.

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 decreased from RMB975,000 in the year 2008 to RMB577,000 in the year 2009 due to reduction in property management incomes received.

Income Tax

The Group's income tax expense increased by RMB38.7 million or 15.6% to RMB286.4 million due to the increase of profit before income tax and the 5% withholding tax provision for the anticipated dividend distribution to the Company by the PRC subsidiaries from the distributable profit for the year 2009. The effective tax rate was 23.4%, marginally higher by 1.4% compared to 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 RMB937.4 million. Due to the higher net finance cost and higher effective tax rate, the net profit margin as a percentage to operating revenues decreased marginally by 0.8% to 24.0%.

Profit Attributable to the Group

Profit attributable to the Group increased to RMB910.8 million, an increase of RMB69.7 million or 8.3% which is marginally lower than the growth rate of profit from operations due to the higher net finance cost and higher effective tax rate.

Liquidity and Financial Resources

The cash and cash equivalent of the Group (aggregate of cash and short term deposits and the principal guaranteed investment deposit) stood at RMB3,856.1 million as at the end of December 2009, representing an increase of 5.7% from the balance of RMB3,649.0 million recorded as at the end of December 2008. The increase was mainly due to the cash inflow of RMB1,731.4 million generated from the operating activities partially offset by (i) payment of dividends of approximately RMB378.8 million to the shareholders of the Company and payment of dividends of approximately RMB35.1 million to the minority shareholders of the Group's subsidiaries; (ii) payment of RMB928.0 million for the acquisition of the Suntrans shopping mall; (iii) repayment of approximately RMB30.0 million on the borrowings and (iv) maintenance capital expenditures and new store opening capital expenditures of RMB130.3 million.

Total debt to total assets ratio of the Group expressed as a percentage of the aggregate of interest bearing bank loans, the senior guaranteed notes May 2012 and its related derivative financial instruments designated as hedging instruments over the total assets was 23.1% as at 31 December 2009. The senior guaranteed notes November 2011 and its related derivative financial instruments designated as hedging instruments are not included in the calculation as it will be netted off against the unlisted held to maturity investments on maturity.

Current Assets and Net Assets

The Group's current assets as at 31 December 2009 was approximately RMB4,492.4 million, an increase of 4.9% or RMB210.0 million from the balance of RMB4,282.4 million recorded as at 31 December 2008. Net assets of the Group as at 31 December 2009 rose to RMB3,992.1 million, an increase of RMB464.8 million or 13.2% over the balance as at 31 December 2008.

Pledge of Assets

As at 31 December 2009, no assets is pledged to any bank or lender.

EMPLOYEES

As at 31 December 2009, total number of employees for the Group was approximately 6,600. 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:

		Movement of the share options for the year ended 31 December 2009			
	Exercise Period	Share options granted *	lapsed	exercised	outstanding
Lot 1	24 Jan 2007 – 23 Jan 2010	29,778,000	68,000	2,982,000	284,500
Lot 2	02 Jan 2008 – 01 Jan 2011	11,166,750	313,750	6,339,000	2,495,000
		<u>40,944,750</u>	<u>381,750</u>	<u>9,321,000</u>	<u>2,779,500</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 2009.

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 2009.

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 2009. The Committee comprises the three independent non executive directors of the Company.

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

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, 22 February 2010