

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONS

The Group is principally engaged in the operation of the “Parkson” brand department stores. Its stores offer a wide range of internationally renowned brands of fashion and lifestyle related merchandise in 4 main categories namely, *Fashion & Apparel*, *Cosmetics & Accessories*, *Household & Electrical*, and *Groceries & Perishables*, essentially targeting the young and contemporary market segment.

In addition, the Group is also involved in the retailing of fashionable goods, consumer financing business and operation of food and beverage (“F&B”) outlets.

The businesses of the Group are spearheaded by Parkson Retail Group Limited (“PRGL”), listed on The Stock Exchange of Hong Kong Limited, which operates 42 retail stores in China; and Parkson Retail Asia Limited, listed on the Singapore Exchange Securities Trading Limited, that operates 39 retail stores in Southeast Asia.

The number of owned and managed stores in each location is as follows:

| As at 31 December | Number of Stores | |
|-------------------|------------------|------|
| | 2022 | 2021 |
| Malaysia | 38 | 38 |
| China | 42 | 45 |
| Vietnam | 1 | 2 |
| | 81 | 85 |



OVERVIEW

| | FYE 2022 (12 months) RM Million | FPE 2021 (*) (18 months) RM Million |
|---|---------------------------------------|---|
| Consolidated Statement of Profit or Loss | | |
| <u>Continuing operations</u> | | |
| Gross sales proceeds | 7,047 | 11,609 |
| Revenue | 2,923 | 4,820 |
| Operating profit | 218 | 482 |
| Loss before tax | (160) | (58) |
| | As at 31.12.2022 RM Million | As at 31.12.2021 RM Million |
| Consolidated Statement of Financial Position | | |
| Total assets | 8,893 | 9,544 |
| Deposits, cash and bank balances | 1,306 | 1,309 |
| Total liabilities | 6,440 | 6,691 |
| Total borrowings | 1,739 | 1,390 |
| Net assets | 1,484 | 1,701 |

(*) : The Company had in 2021, changed its financial year end from 30 June to 31 December. The comparative information which was prepared for the 18-month period from 1 July 2020 to 31 December 2021 (“FPE 2021”), is therefore not comparable.

For the financial year ended 31 December 2022 (“FYE 2022”), the Group generated gross sales proceeds of RM7,047 million with a revenue of RM2,923 million. While the Group’s retailing operations in Malaysia enjoyed impressive sales growth on the back of improved shopper traffic following the reduced impact of COVID-19, the Group’s major contributor, Parkson China, had witnessed weak consumer sentiments brought about by the resurgence of the coronavirus since early 2022.

As a result, the Group registered a lower operating profit of RM218 million.

As at 31 December 2022, the Group’s total assets decreased by 7% to RM8,893 million mainly due to impairment loss on assets totalling RM61 million, in addition to depreciation and amortisation. Total liabilities reduced by 4% to RM6,440 million primarily due to repayment to creditors and suppliers. During the year under review, the Group had drawn down HK\$2,667.6 million (equivalent to approximately RM1,380 million) loans to refinance the existing syndicated loans of HK\$2,112 million (equivalent to approximately RM1,091 million) and for general corporate and working capital needs of the Group. Accordingly, total borrowings were 25% higher at RM1,739 million. The Group’s net assets stood at RM1,484 million or RM1.29 per share (31.12.2021: RM1,701 million or RM1.52 per share).

REVIEW OF OPERATIONS

Malaysia

| | FYE 2022 (12 months) | FPE 2021 (18 months) |
|-----------------------------|---------------------------------|---------------------------------|
| Number of stores | 38 | 38 |
| Revenue (RM Million) | 755 | 720 |
| Segment profit (RM Million) | 209 | 65 |

For the FYE 2022, our Malaysia retailing operations witnessed a revival in its stores’ footfall with improving consumer spending in tandem with the reduced impact of the COVID-19 pandemic and the full lifting of movement restrictions. Accordingly, our operations registered an encouraging revenue of RM755 million.

Operating profit surged to RM209 million for the FYE 2022. The improvement was attributed to the commendable revenue attained and improved gross profit margins, together with the Group’s continuous efforts in optimising operating efficiencies and productivity.

While the Group is hopeful that the upbeat momentum of consumer demand in Malaysia is sustainable along with the arrival of foreign tourists which is expected to boost sales performance, the Group takes cognizance of inflationary pressures and the higher cost of living which would affect consumer sentiments. Under these circumstances, the Group is committed to improving or sustaining its performance, and will continue to stay focused on increasing stores’ productivity and optimising operational efficiency besides further implementing cost control measures.



China

| | FYE 2022 (12 months) | FPE 2021 (18 months) |
|-----------------------------|-------------------------|-------------------------|
| Number of stores | 42 | 45 |
| Revenue (RM Million) | 2,107 | 3,999 |
| Segment profit (RM Million) | 27 | 426 |



Parkson China's business has been adversely affected by the surge in new variants of the coronavirus in various cities in China since early 2022, along with the implementation of related prevention and control quarantine measures. Coupled with the uncertainties of the development of the pandemic and the weak consumer sentiments, Parkson China's overall performance was weaker than the preceding reporting period. The operations posted a revenue of RM2,107 million, but remained profitable at RM27 million attributable to the continuous efforts in optimising operating efficiencies and cost control measures.

Facing the continuous challenges of market changes and intense competition, the Group remains focused on its main business while exploring various business models through diversifying its income sources in driving its sustainable growth. In this regard, the Group constantly monitors the emerging trends in the beauty market and launches targeted development strategies with the aim of attracting the younger generation of consumers by offering customised service experiences. During the year under review, *Parkson Beauty* opened its new outlet in Wenzhou City to tap on the expanding market for beauty products in China.



The Group also constantly evaluates and adjusts its resources in a timely manner. During the year under review, the Group expanded the operating area of a store in Datong City to enhance its business formats, meet different customer demands and enrich the consumption experience of customers; whilst 4 stores were closed for better and more efficient utilisation of the Group's resources. As at 31 December 2022, the Group has a network coverage of 42 stores in 28 cities across China.

The Group believes that its strategy of "Multiple Stores in a City" and "Model Innovation" will reach out to more customers at different consumption levels and with different consumption habits. In January 2023, the Group opened a new store in Yichun City, Jiangxi Province. Meanwhile, the Group is setting up a new store in Nanchang County, which will be the Group's fourth store in Jiangxi Province, which is expected to be opened in the fourth quarter of 2023. Plans are also in the pipeline to expand its retail portfolio in Mianyang City where the Group currently has presence and market recognition.

Looking ahead, the Group remains optimistic about the overall market prospects in China, with the increasing urbanisation rate and improvements in the living standard. The Group believes that with the lifting of COVID-19 related prevention and control measures, and the Group's effective business strategies and extensive experience in the retail market over the past two decades, it can achieve stable and sustainable performance despite the challenging environment.

Vietnam

| | FYE 2022 (12 months) | FPE 2021 (18 months) |
|------------------------------------|-------------------------|-------------------------|
| Number of stores | 1 | 2 |
| Revenue (RM Million) | 8 | 6 |
| Segment (loss)/profit (RM Million) | (7) | 27 |

The Group closed *Parkson Hung Vuong Plaza* in Ho Chi Minh City since the beginning of January 2022 in its efforts to rationalise its Vietnam operations. During the year under review, the competitive retail scene in Vietnam continued to exert pressure on our remaining store at *Saigon Tourist Plaza*, with competitors stepping up retail expansion and promotions amid post-pandemic recovery. For the FYE 2022, revenue of RM8 million with an operating loss of RM7 million were recorded.

Included in the operating profit for the FPE 2021 was income from subleasing to tenants of RM37 million. Excluding this one-off income, the operations would have recorded an operating loss of RM10 million for the FPE 2021.



Others



| | FYE 2022 (12 months) | FPE 2021 (18 months) |
|---------------------------|-------------------------|-------------------------|
| Revenue (RM Million) | 54 | 71 |
| Segment loss (RM Million) | (11) | (2) |

Results of this Division were mainly derived from the consumer financing business, operation of F&B business and investment holding. For the FYE 2022, the Group's consumer financing business continued to increase its revenue and operating profit whilst the F&B operations saw increasing foot traffic due to the reduced impact of the COVID-19 pandemic. The higher loss in the FYE 2022 was mainly due to foreign currency exchange loss.



The Group's consumer financing business carried out by *Parkson Credit* provides credit financial services such as purchasing products via instalment payments, to customers through its financial technology platform. For the FYE 2022, the operations continued to deliver promising results with revenue and operating profit registering RM46 million and RM26 million respectively. Moving forward, *Parkson Credit* will strive to improve and grow its market presence and profitability, including improving customer engagement via digitalisation and enhancing credit management in respect of under-performing/non-performing loan receivables, besides being committed in shifting the facets of business operations onto an online ecosystem for greater efficiency.

On the F&B operations, the Group has seen increasing foot traffic in its *Hogan* bakery outlets since the lifting of COVID-19 restrictions. More emphasis will be placed on further improving the productivity of the operations.