

## 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 45 retail stores in China; and Parkson Retail Asia Limited, listed on the Singapore Exchange Securities Trading Limited, that operates 40 retail stores in Southeast Asia.

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

	Number of Stores	
	As at 31.12.2021	As at 30.6.2020
Malaysia	38	42
China	45	41
Vietnam	2	4
Indonesia (#)	–	15
	<b>85</b>	102



(#) : The Group had ceased to have control over the subsidiary in Indonesia with effect from 17 May 2021.

### OVERVIEW

	FPE 2021 (*) (18 months) RM Million	FYE 2020 (12 months) RM Million
<b>Consolidated Statement of Profit or Loss</b>		
<u>Continuing operations</u>		
Gross sales proceeds	11,609	7,813
Revenue	4,820	3,223
Operating profit	482	94
Loss before tax	(58)	(520)
	As at 31.12.2021 RM Million	As at 30.6.2020 RM Million
<b>Consolidated Statement of Financial Position</b>		
Total assets	9,544	10,456
Deposits, cash and bank balances	1,309	1,754
Total liabilities	6,691	7,832
Total borrowings	1,390	2,031
Net assets	1,701	1,587

(\*) : The Company had changed its financial year end from 30 June to 31 December. Consequently, the current financial statements are for a period of 18 months from 1 July 2020 to 31 December 2021 (“FPE 2021”). The comparative information which was prepared for the 12-month period from 1 July 2019 to 30 June 2020 (“FYE 2020”), is therefore, not comparable.

For the FPE 2021, the Group generated gross sales proceeds of RM11,609 million with a revenue of RM4,820 million. Overall, Parkson China, the major contributor of the Group's retailing operations, has shown improvement in tandem with the reduced impact from COVID-19, tactical promotional activities and continuous efforts in expanding its income sources, while retailing stores in the Southeast Asian region faced challenges brought on by the prolonged COVID-19 pandemic.

Against the backdrop of these challenging operating environments, the Group continued to take pro-active measures in monitoring and assessing the viability of our stores and ventures, besides optimising operating efficiencies and productivity as well as implementing cost rationalisation. These had enabled the Group to register an operating profit of RM482 million for the FPE 2021.

As at 31 December 2021, the Group's total assets decreased by 9% to RM9,544 million with deposits, cash and bank balances standing at RM1,309 million; a reduction of 25% from balances as at 30 June 2020 of RM1,754 million. The lower deposits, cash and bank balances were primarily due to repayment of the Group's borrowings. The Group's net assets stood at RM1,701 million or RM1.52 per share (30.6.2020: RM1,587 million or RM1.49 per share).

## REVIEW OF OPERATIONS

### Malaysia

	FPE 2021 (18 months)	FYE 2020 (12 months)
Number of stores	38	42
Revenue (RM Million)	720	705
Segment profit (RM Million)	65	5



Our retailing operations have been severely affected by the COVID-19 pandemic with a series of lockdowns imposed including a nationwide movement control order being re-imposed since 1 June 2021 amid the third wave of COVID-19 cases. The operations, however, experienced a return of strong sales following the reopening of operations from 16 August 2021. Notwithstanding the setbacks brought on by the COVID-19 pandemic, our Malaysia retailing operations reported a revenue of RM720 million and remained profitable at RM65 million attributable to continuous efforts in optimising store productivity and implementing cost rationalisation.

On 3 December 2021, *Parkson Pavilion Bukit Jalil*, the second largest Parkson department store in Malaysia after *Parkson Elite Pavilion KL*, opened its doors to serve shoppers. In order to provide shoppers with a more enhanced shopping experience, the store has its own pick-up and drop-off points as well as dedicated lifts with direct access to Parkson. The Group will continue to pursue new location opportunities, and where necessary, undertake closure of stores due to changing market environment. During the current financial period, Parkson Malaysia exited from *Parkson Plaza OUG* in Kuala Lumpur, *Parkson 1st Avenue* in Penang and 3 stores in Johor Bahru, Seremban and Kelantan respectively after due consideration. Parkson Malaysia has 38 stores as at 31 December 2021.



The Group remains hopeful in improving performance going forward and will continue to stay focused on rebuilding its sales and bottom-line while keeping an eye for new opportunities as the market picks up. The Group will continue to improve operating efficiencies in its stores and tap further on the omnichannel approach to achieve sales growth and remain relevant.

## China

	FPE 2021 (18 months)	FYE 2020 (12 months)
Number of stores	45	41
Revenue (RM Million)	3,999	2,369
Segment profit (RM Million)	426	123



Parkson China registered a revenue of RM3,999 million for the FPE 2021. Overall, the retailing stores have shown improvement with the reduced impact of the COVID-19 pandemic, tactical promotional activities and continuous efforts in expanding its income sources. The operations reported an operating profit of RM426 million on the back of ongoing efforts in optimising operating efficiencies and cost control measures.

Nevertheless, the occurrence of new variants of the virus had brought uncertainties to the economic environment, causing Chinese consumers to be more cautious in their consumption. Under this challenging and unstable business environment, Parkson China continues to diversify its business by exploring several operational models to increase its income sources to attain sustainable development.

- **Expand retail portfolio of Parkson**

The Group is focused on enriching its retail portfolio with a flexible and diverse strategy of “Multiple Stores in a City” and “Differentiate Market Positioning” to reach out to more customers at different consumption levels and with diverse consumption habits. This will enable the Group to gain more market share in the long run.

The Group’s *Datong Parkson* store and *Wuzhou Sanqi Parkson* store officially commenced operation in January and September 2021 respectively. *Datong Parkson*, the second Parkson store in Datong City, Shanxi Province, operates as a “department store and shopping mall complex” in order to enhance the retail portfolio of the property; while *Wuzhou Sanqi Parkson*, the Group’s fourth store in Guangxi Zhuang Autonomous Region, represents a new cultural landmark integrating office, residence, hotel, F&B, retail and entertainment.

The upgrading and renovation project of Suzhou Changfa Commercial Building was officially unveiled with a new look of “Parkson Changfa Hui” and commenced trial operation on 31 December 2021. The new landmark, jointly created by Jinjin Changfa Group, a well-known commercial brand in Suzhou City, Jiangsu Province, marks the Group’s official entry into the core market of Suzhou City.

During the period under review, the Group also launched *Guizhou Tongren Parkson* in its effort to further expand its network. Plans are also in the pipeline to open a new store in Yichun City, Jiangxi Province and when it is launched in 2022, will be the Group’s third store in Jiangxi Province.

As at 31 December 2021, the Group has a network coverage of 45 stores across 30 cities in China.

- **Being bold to change and develop diversified business**

Parkson has been dedicating its efforts to expand its product portfolio to meet the growing consumer needs. In addition, the Group constantly monitors the development trend of the beauty market and launches differentiated product strategies and marketing promotions to raise its brand image and reputation. Parkson’s self-operated makeup brands – *Parkson Beauty* and *Play Up*, have become enormously popular among young consumers, as the Group collaborates with several well-known beauty brands to introduce exclusive products in combination with customised service experiences. The Group plans to open a new *Parkson Beauty* store in Wenzhou City, Zhejiang Province in 2022 to further grow its business in the beauty sector.

In order to meet the needs of modern cities in China, the Group has adjusted and transformed *Sichuan Shishang Parkson* into an “outlet” store. *Sichuan Shishang Parkson Outlet Store* was launched on 31 December 2021 as the Group’s first wholly-owned outlet store in China.

The Group has entered into a lease contract for *Fuxingmen North Building* in October 2021 and expects to hand over the premises to the lessee in the first half of 2022. Located in Beijing Financial Street, the Group is confident that this office building will contribute stable recurring rental income to the Group.

- **Keeping pace with the times to combine online and offline consumption**

The retail industry has entered into a business model that combines online and offline. In order to seize the growth opportunities of online retailing, the Group has promoted the “O2O New Retail Strategy” through online channels such as Parkson’s official WeChat account and mobile shopping mini-programs, and launched a number of measures to stimulate consumption to promote the growth of its offline retail business. Meanwhile, the Group continues to identify and seize the opportunities to attract customers to visit Parkson stores to optimise their shopping experience.

Looking ahead, the Group remains positive of the prospects of the retailing operations in China as the consumer market adapts to the new normal. While the requirements of quarantine, social distancing, and travel restrictions have not been relaxed amid the repeated COVID-19 outbreaks, consumers are beginning to regain their inclination to spend in the domestic market. The Group will continue to strive to improve consumer experience in order to fully capture potential opportunities provided by the Chinese retail market besides continuing to diversify its income sources, establish online and offline sales channels, and promote long-term sustainable development of its businesses.

#### Vietnam

	FPE 2021 (18 months)	FYE 2020 (12 months)
Number of stores	2	4
Revenue (RM Million)	6	6
Segment profit (RM Million)	27	7



During the FPE 2021, the Group’s retailing stores in Vietnam continued to witness weaker footfall owing to the unprecedented duration of movement restrictions and shuttered businesses following the spiralling number of daily COVID-19 new cases. The operations reported a revenue of RM6 million with a segment profit of RM27 million. Included in the segment profit for the FPE 2021 was income from subleasing of RM37 million (FYE 2020: RM32 million). Excluding this one-off income, the operations would have recorded an operating loss of RM10 million (FYE 2020: RM25 million).



During the period under review, the Group has successfully collaborated with another 2 internationally renowned brands, *Muji* and *Kohnan*, which opened their respective flagship outlets at *Parkson Saigon Tourist Plaza* after the opening of *Uniqlo* outlet in FYE 2020. At the same time, as the Group continues to take keen measures to monitor and assess the viability of its stores to stay relevant, a store each in Danang and Hai Phong were closed during the period under review; while *Parkson Hung Vuong Plaza* in the Ho Chi Minh City ceased its operations subsequent to the reporting period.

### Indonesia

	FPE 2021 (18 months)	FYE 2020 (12 months)
Revenue (RM Million)	24	96
Segment loss (RM Million)	(35)	(20)

The retailing operations in Indonesia were severely affected by the COVID-19 pandemic. The Group exited the Indonesian market completely during the period under review. The Group had ceased to have control over the subsidiary in Indonesia on 17 May 2021, and accordingly, had ceased to consolidate the subsidiary in the Group's consolidated financial statements effective 17 May 2021.



### Others

	FPE 2021 (18 months)	FYE 2020 (12 months)
Revenue (RM Million)	71	47
Segment loss (RM Million)	(2)	(20)

Results of this Division were mainly derived from the consumer financing business, operation of F&B business and investment holding. For the FPE 2021, the Group's consumer financing business continued to post encouraging revenue and operating profit; whilst the F&B operations had closed certain loss-making outlets.



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. Since its establishment 7 years ago, *Parkson Credit* has grown to be one of the major players in the consumer financing industry with its growing customer base. While the unprecedented changes caused by the pandemic represented opportunities to leverage on innovation and technology to review its business methods, *Parkson Credit* will continue to embark on new opportunities to build better customer experience, services and products that best suit the diverse customers' needs as well as creating a win-win situation for its business partners.

During the FPE 2021, the Group had closed down several loss-making F&B outlets as part of its rationalisation of operations. While the *Hogan Bakery* outlets experienced reduction in footfall due to the COVID-19 pandemic, the operations have managed to improve their operating efficiencies during the FPE 2021. Moving forward, the Group will continue to maximise the productivity of its bakery operations and embrace digital marketplaces to reach out to customers.