



PARKSON RETAIL ASIA LIMITED

(Co. Reg. No. 201107706H)
(Incorporated in the Republic of Singapore)

**EMPHASIS OF MATTER BY THE INDEPENDENT AUDITOR ON THE AUDITED
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Pursuant to Rule 704(5) of the Listing Manual of Singapore Exchange Securities Trading Limited, the Board of Directors (the "Board") of Parkson Retail Asia Limited (the "Company", and together with its subsidiaries, the "Group") wishes to highlight that the independent auditor has, without qualifying its opinion, included in its report an emphasis of matter in respect of the audited financial statements of the Group for the financial year ended 30 June 2020 (the "Audited Financial Statements"). The independent auditor wishes to draw shareholders' attention that the Group incurred a net loss of SGD84,995,000 for the financial year ended 30 June 2020, and as of that date, the Group's and the Company's current liabilities exceeded its current assets by SGD117,365,000 and SGD7,241,000 respectively, and the Group's total liabilities exceeded total assets by SGD65,960,000. The Group's operations were significantly impacted by movement restrictions and store closure caused by COVID-19 pandemic in its key markets. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. As disclosed in Note 2.1 to the Audited Financial Statements, the ability of the Group to continue as a going concern is dependent on the Group generating sufficient cash flows from its operations to meet working capital needs and continued support from its suppliers and creditors.

The Board wishes to further highlight that the Auditor's Report in respect of the Audited Financial Statements of the Group for the previous financial year ended 30 June 2019 contained a similar emphasis of matter.

A copy of the Independent Auditor's Report together with the extract of Note 2.1 to the Audited Financial Statements are annexed to this announcement.

The Company will be issuing its full annual report in due course, which will contain the Audited Financial Statements and the Independent Auditor's Report. The next Annual General Meeting will be convened in October 2020.

For and on behalf of the Board
PARKSON RETAIL ASIA LIMITED

Tan Sri William Cheng Heng Jern
Executive Chairman

12 October 2020

Parkson Retail Asia Limited and its subsidiaries

Independent auditor's report

For the financial year ended 30 June 2020

Independent auditor's report to the members of Parkson Retail Asia Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Parkson Retail Asia Limited (the Company) and its subsidiaries (the Group), which comprise the balance sheets of the Group and of the Company as at 30 June 2020, and the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group and statements of changes in equity of the Group and the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 to the financial statements. The Group incurred a net loss of SGD84,995,000 for the year ended 30 June 2020. As of that date, the Group and Company's current liabilities exceeded their current assets by SGD117,365,000 and SGD7,241,000 respectively, and the Group's total liabilities exceeded its total assets by SGD65,960,000. The Group's operations were significantly impacted by movement restrictions and store closure caused by COVID-19 pandemic in its key markets. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. As disclosed in Note 2.1, the ability of the Group to continue as a going concern is dependent on the Group generating sufficient cash flows from its operations to meet working capital needs and continued support from its suppliers and creditors.

If the Group is unable to continue in operation existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group may have to reclassify certain non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to these financial statements.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Impairment assessment of property, plant and equipment and right-of-use assets

The Group operates department stores primarily in Malaysia, Indonesia and Vietnam. The carrying value of the property, plant and equipment and right-of-use assets of the Group as at 30 June 2020 are SGD64,974,000 and SGD258,919,000 respectively and are material to the Group's financial statements. Management judgement is involved in the identification of any impairment indicators as well as the assessment of the recoverable values of these assets. Such judgement is made based on forecasted future store performance, which is, amongst others, dependent on the expected store traffic, the competitive environment in local markets and taking into consideration the heightened level of estimation uncertainty associated with the market and economic conditions prevailing at the reporting date brought on by the COVID-19 pandemic. Management has recognised an impairment charge of SGD11,216,000 and SGD40,840,000 on property, plant and equipment and right-of-use assets respectively during the financial year. For these reasons, we have identified this as a key audit matter.

Our procedures included, amongst others, assessing management's identification of impairment indicators of assets related to the individual department stores. Where an impairment indicator is identified, we, with the assistance of the auditors of the subsidiaries, evaluated the reasonableness of management's key assumptions underlying the impairment calculations for different scenarios of the recovery period from the COVID-19 pandemic. In addition, we have also compared the actual results of the stores against forecast previously made by management and taking into consideration the viability of the stores' future plans, local economic development and industry outlook, taking into account the uncertainty associated with the evolving COVID-19 pandemic situation. Our internal specialists assisted us in evaluating the reasonableness of the discount rate used in deriving the recoverable amount.

The Group's disclosures for property, plant and equipment and right-of-use assets are included in Note 11 and Note 26 to the financial statements respectively.

Inventory allowance

The Group's inventories mainly consist of inventories at its department stores and they amounted to SGD41,274,000, representing 9% of the Group's total assets as at 30 June 2020. Inventories are subject to the risk of theft and/or obsolescence which is an inherent risk to the Group. Inventories are carried at the lower of cost and net realisable value. As the determination of net realisable value requires significant management judgement, we have identified this as a key audit matter. The allowance for inventory shrinkage and inventory obsolescence recognised in profit or loss was SGD1,037,000 for the current financial year.

Parkson Retail Asia Limited and its subsidiaries

Independent auditor's report

For the financial year ended 30 June 2020

Independent auditor's report to the members of Parkson Retail Asia Limited

Inventory allowance (continued)

The procedures included, amongst others, observing stock count, reviewing management's reconciliation of stock count results to inventory record and performing roll forward/backward of stock count to year end quantity, where applicable. We assessed the adequacy of the shrinkage allowance made by assessing the total shrinkage loss recognised after the inventory cycle counts and projected it to year end. We tested the design and effectiveness of system controls over the purchasing, receiving and invoice matching process. We assessed the adequacy of the allowance for obsolescence made by the management by reviewing selling prices of samples of inventories, aging of inventories and gross margins of inventories sold during the year and after the year end. We also reviewed the audit procedures performed by the auditors of the subsidiaries and held discussions with them and management in assessing the assumptions.

The Group's disclosures for inventories are included in Note 20 to the financial statements.

Impairment assessment of investment in subsidiaries (Parent company only)

As at 30 June 2020, the Company has significant investment in subsidiaries, Parkson Corporation Sdn Bhd and PT Tozy Sentosa. There is significant management judgement involved in the assessment of the recoverability of these subsidiaries which operate the Group's department store operations in Malaysia and Indonesia respectively. During the current financial year, an impairment charge of SGD14,356,000 was recognised against the cost of investment in subsidiaries.

Management's assessment of the recoverable amount of the investment in subsidiaries involves estimation and judgement relating to the assumptions used in profit forecast and discounted cashflows and considers the heightened level of estimation uncertainty associated with the market and economic conditions prevailing at the reporting date brought on by the COVID-19 pandemic. Key assumptions and estimates used in the cash flow projections are pre-tax discount rates, budgeted gross margins and growth rates. Thus, we have identified this as a key audit matter.

Our audit procedures included, amongst others, assessing the reasonableness of the assumptions used in the cash flow projections approved by the board of directors. We held discussions with management and the auditors of the subsidiaries to obtain an understanding of assumptions used in the cash flow projections. The auditors of the subsidiaries were involved to assist us in the evaluation of the reasonableness of the assumptions used by management in their cash flow projections, which included a comparison of the historical performance of the subsidiaries against forecasts, and considering the viability of future plans, local economic conditions and industry outlook, taking into account the uncertainty associated with the evolving COVID-19 pandemic situation. Our internal specialists also assisted us in evaluating the reasonableness of certain key assumptions such as the pre-tax discount rates and terminal growth rate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of Parkson Retail Asia Limited

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent auditor's report to the members of Parkson Retail Asia Limited

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Tan Peck Yen.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

12 October 2020

2.1 Fundamental accounting concept

The financial statements of the Group have been prepared on a going concern basis notwithstanding that the Group incurred a net loss of SGD84,995,000 (2019: SGD34,613,000) for the year ended 30 June 2020. As at that date, the Group and Company's current liabilities exceeded their current assets by SGD117,365,000 (2019: SGD61,336,000) and SGD7,241,000 (2019: SGD1,367,000) respectively, and the Group's total liabilities exceeded its total assets by SGD65,960,000. The Group's operations were significantly impacted by movement restrictions and store closure caused by COVID-19 pandemic in its key markets. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The directors are of the view that it is appropriate to prepare the Group's financial statements on a going concern on the following bases:

- (a) the Group will be able to generate sufficient cash flows from its operations to pay its liabilities as and when they fall due. Management has assumed that there will not be any further significant lockdown or movement control orders in the countries where the Group operates which will cause major disruption to business operations and that recovery of business will be in line with trajectory observed since July 2020. In particular there are no significant changes in the economic environment and consumer sentiments from that observed subsequent to year end and to-date, which would result in significant changes in the revenue and gross margins forecasted by management;
- (b) management intends to manage cashflow of the subsidiaries on overall Group basis, where necessary;
- (c) there are no changes in the credit terms granted by suppliers and the Group intends to adhere to the average trade payables turnover days consistent with prior years;
- (d) on 27 July 2020, the Group announced it has entered into a conditional Asset Transfer Agreement for the disposal of a property in Vietnam for a consideration of USD10 million, inclusive of value added tax. The Group expects the conditions stipulated in the Asset Transfer Agreement to be fulfilled and the disposal of the property to be completed and the net proceeds on disposal of approximately SGD13,236,000 to be received in the financial year ending 30 June 2021;
- (e) the Group has unutilised banking facilities of approximately SGD6,748,000 as of 30 June 2020 that is available for use; and
- (f) subsequent to the year end, the Group received additional advances of SGD4,428,000 from the ultimate holding company, Parkson Holdings Berhad. These advances are unsecured, interest bearing at 3% to 7% per annum and the payment of the first quarter installment will be in 2024. The parties intend to execute a supplemental loan agreement in the financial year ending 30 June 2021 for an additional amount of RM30 million. This is subject to shareholders' approval.

Notwithstanding the above, the assumptions are subject to other factors including but not limited to general economic conditions either nationally or in regions in which the Group operates. As the assumptions were made based on conditions prevailing as at the reporting date, actual outcome may differ materially from these assumptions.

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which may differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.