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AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

2020 ANNUAL RESULTS

The Board of Directors (the “Board”) of AEON Stores (Hong Kong) Co., Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (the “Group” or “AEON”) for the year ended 31 December 2020 together with comparative figures for the previous year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	NOTES	2020 HK\$'000	2019 HK\$'000
Revenue	3	9,961,893	9,493,774
Other income	5	583,928	545,918
Investment income		22,411	27,430
Interest income from rental deposits		10,767	10,316
Purchases of goods and changes in inventories		(7,082,877)	(6,656,159)
Staff costs		(1,061,224)	(1,077,474)
Depreciation of investment properties		(83,913)	(85,247)
Depreciation of property, plant and equipment		(204,694)	(209,769)
Depreciation of right-of-use assets		(724,225)	(749,094)
Lease expenses		(91,275)	(84,831)
Other expenses	6	(1,040,881)	(1,063,992)
Pre-operating expenses		(2,823)	(2,694)
Other gains and losses	7	(14,581)	(12,719)
Interest on lease liabilities		(292,755)	(303,414)
Loss before tax		(20,249)	(167,955)
Income tax expense	8	(9,987)	(21,032)
Loss for the year		(30,236)	(188,987)
(Loss) profit for the year attributable to:			
Owners of the Company		(36,806)	(188,726)
Non-controlling interest		6,570	(261)
		(30,236)	(188,987)
Loss per share - basic	10	14.16 HK cents	72.59 HK cents

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020	2019
	HK\$'000	HK\$'000
Loss for the year	<u>(30,236)</u>	<u>(188,987)</u>
Other comprehensive (expense) income		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	(3,750)	(2,947)
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>3,279</u>	<u>(453)</u>
Other comprehensive expense for the year, net of income tax	<u>(471)</u>	<u>(3,400)</u>
Total comprehensive expense for the year	<u><u>(30,707)</u></u>	<u><u>(192,387)</u></u>
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	(44,931)	(190,768)
Non-controlling interest	<u>14,224</u>	<u>(1,619)</u>
	<u><u>(30,707)</u></u>	<u><u>(192,387)</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020**

	NOTES	2020 HK\$'000	2019 HK\$'000
Non-current Assets			
Property, plant and equipment		645,756	679,741
Right-of-use assets		3,762,037	3,902,352
Investment properties		479,890	488,352
Goodwill		62,838	94,838
Equity instruments at FVTOCI		19,848	23,598
Pledged bank deposits		22,417	21,305
Deferred tax assets		44,819	46,944
Rental and related deposits paid		201,724	184,349
		<u>5,239,329</u>	<u>5,441,479</u>
Current Assets			
Inventories		889,997	935,949
Trade receivables	11	37,809	35,316
Other receivables, prepayments and deposits		102,112	83,346
Amounts due from fellow subsidiaries		62,690	63,995
Tax recoverable		-	8,532
Time deposits		463,740	327,567
Pledged bank deposits		10,230	10,751
Bank balances and cash		1,537,837	1,470,515
		<u>3,104,415</u>	<u>2,935,971</u>
Current Liabilities			
Trade payables	12	1,231,199	1,250,087
Other payables, accrued charges and other liabilities		753,530	729,068
Lease liabilities		711,073	762,137
Contract liabilities		441,548	409,426
Dividend payable		295	354
Amount due to ultimate holding company		26,998	28,665
Amounts due to fellow subsidiaries		28,933	100,979
Tax liabilities		5,150	16,859
		<u>3,198,726</u>	<u>3,297,575</u>
Net Current Liabilities		<u>(94,311)</u>	<u>(361,604)</u>
Total Assets Less Current Liabilities		<u>5,145,018</u>	<u>5,079,875</u>
Capital and Reserves			
Share capital		115,158	115,158
Reserves		587,498	658,374
Equity attributable to owners of the Company		702,656	773,532
Non-controlling interest		146,976	132,752
Total Equity		<u>849,632</u>	<u>906,284</u>
Non-current Liabilities			
Rental deposits received and other liabilities		135,579	133,916
Lease liabilities		4,159,573	4,038,563
Deferred tax liabilities		234	1,112
		<u>4,295,386</u>	<u>4,173,591</u>
		<u>5,145,018</u>	<u>5,079,875</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The financial information relating to the years ended 31 December 2020 and 2019 included in these preliminary announcements of annual results for the years ended 31 December 2020 and 2019 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows.

The Company has delivered the consolidated financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2020 in due course.

The Company’s auditor has reported on the consolidated financial statements of the Group for both years. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by HK\$94,311,000 at 31 December 2020. The directors of the Company have reviewed the cash flow projections prepared by management to evaluate the Group’s ability to continue as a going concern. Based on the cash flow projections, the directors of the Company have a reasonable expectation that the Group has adequate resources to continue in operational existence and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2020. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS7	Interest Rate Benchmark Reform

2. APPLICATION OF AMENDMENTS TO HKFRSs – continued

Amendments to HKFRSs that are mandatorily effective for the current year – continued

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF AMENDMENTS TO HKFRSs – continued

New and amendments to HKFRSs in issue but not yet effective - continued

Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application is not expected to have impact on the Group's financial position and performance as the Group does not intend to apply the practical expedient.

3. REVENUE

Revenue represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the year. Revenue is recognised at a point in time when the customers obtain control of the goods.

(i) Disaggregation of revenue from contracts with customers

	<u>For the year ended 31 December 2020</u>		
	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Direct sales	4,597,781	4,799,143	9,396,924
Income from concessionaire sales	296,534	268,435	564,969
	<u>4,894,315</u>	<u>5,067,578</u>	<u>9,961,893</u>

	<u>For the year ended 31 December 2019</u>		
	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Direct sales	3,909,190	4,917,032	8,826,222
Income from concessionaire sales	329,762	337,790	667,552
	<u>4,238,952</u>	<u>5,254,822</u>	<u>9,493,774</u>

3. REVENUE— continued

(ii) Performance obligations for contracts with customers

Direct sales

The Group sells merchandise directly to customers both through its own retail stores and through internet sales.

For sales of merchandise to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail stores. Payment of the transaction price is due immediately at the point the customer purchases the goods.

For internet sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been delivered to the customer's specific location. When the customer initially purchases the goods online the transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

The Group also grants award credits for customers under the Group's customer loyalty scheme, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods using the award credits at the retail stores.

There is no term on goods return under the Group's standard contract but generally the Group allows the customers to exchange the goods within one week in the case of faulty items.

Income from concessionaire sales

Under concessionaire sales, the Group acts as an agent to arrange for licensees to sell their goods in the retail stores of the Group. Income from concessionaire sales is recognised when the goods of the licensees have been sold, based on certain percentage of the sales amount.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

As at 31 December 2020 and 2019, the remaining performance obligations (unsatisfied or partially unsatisfied) are part of contracts that have original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. OPERATING SEGMENTS

Information reported to the Group's chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on the retail stores of the Group located in different locations. The reportable segments represented the aggregate of operating segments with similar economic characteristics in terms of nature of products, type of customers and nature of the regulatory environment. The chief operating decision makers identify Hong Kong and the People's Republic of China ("PRC") as the two reportable segments.

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

4. OPERATING SEGMENTS– continued

Segment revenues and results– continued

For the year ended 31 December 2020

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Elimination</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	4,894,315	5,067,578	-	9,961,893
Inter-segment sales	-	5,872	(5,872)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	4,894,315	5,073,450	(5,872)	9,961,893
	<hr/>	<hr/>	<hr/>	<hr/>
Segment profit (loss)	62,309	(72,969)	-	(10,660)
	<hr/>	<hr/>	<hr/>	<hr/>
Investment income				22,411
Impairment loss recognised in respect of goodwill				(32,000)
				<hr/>
Loss before tax				(20,249)
				<hr/>

For the year ended 31 December 2019

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	4,238,952	5,254,822	9,493,774
	<hr/>	<hr/>	<hr/>
Segment loss	(114,775)	(80,610)	(195,385)
	<hr/>	<hr/>	<hr/>
Investment income			27,430
			<hr/>
Loss before tax			(167,955)
			<hr/>

Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of investment income and impairment loss recognised in respect of goodwill. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Inter-segment revenue is charged at prevailing market rates.

The chief operating decision makers make decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the chief operating decision makers do not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

5. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Rental income from investment properties	329,335	395,039
Government grants	146,429	258
Management fee and other income from sub-leases	77,094	91,109
Compensation from closure of store	-	7,020
Others	31,070	52,492
	<u>583,928</u>	<u>545,918</u>

During the year, the Group recognised government grants of HK\$133,718,000 from Places of Public Entertainment Licence Holder Subsidy Scheme, Food Licence Holders Subsidy Scheme and Employment Support Scheme under Anti-Epidemic Fund of the Hong Kong Government, and HK\$12,711,000 relating to subsidies granted by municipal governments in PRC.

6. OTHER EXPENSES

	2020 HK\$'000	2019 HK\$'000
Advertising, promotion and selling expenses	296,380	273,952
Maintenance and repair expenses	337,802	351,463
Utilities expenses	143,811	164,470
Administrative expenses	182,904	191,604
Others	79,984	82,503
	<u>1,040,881</u>	<u>1,063,992</u>

7. OTHER GAINS AND LOSSES

	2020 HK\$'000	2019 HK\$'000
Exchange gain (loss), net	11,551	(8,956)
Impairment loss recognised in respect of goodwill	(32,000)	-
Impairment loss recognised in respect of property, plant and equipment	(1,049)	(1,021)
Impairment loss recognised in respect of right-of-use assets	(5,413)	(7,963)
Loss on disposal/written off of property, plant and equipment	(4,703)	(3,394)
Gain on termination of lease contracts	5,374	8,615
Insurance claims for damages from fire and flooding accident, net of loss incurred amounting to HK\$11,484,000	11,659	-
	<u>(14,581)</u>	<u>(12,719)</u>

8. INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
The charges comprise:		
Current tax		
PRC Enterprise Income Tax	4,736	18,766
PRC withholding tax	<u>1,843</u>	<u>1,216</u>
	<u>6,579</u>	<u>19,982</u>
Deferred tax		
Current year	<u>3,408</u>	<u>1,050</u>
Income tax expense for the year	<u><u>9,987</u></u>	<u><u>21,032</u></u>

No provision for Hong Kong Profits Tax is made as the Group did not generate any assessable profits for both years.

Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liability in respect of the withholding tax on the undistributed earnings of subsidiaries during the year has been provided at the applicable tax rate.

9. DIVIDENDS

	2020 HK\$'000	2019 HK\$'000
Final dividend paid for 2019 of 5 HK cents (2019: 22 HK cents for 2018) per ordinary share	13,000	57,200
Interim dividend paid for 2020 of 5 HK cents (2019: 22 HK cents for 2019) per ordinary share	13,000	57,200
	<u><u>26,000</u></u>	<u><u>114,400</u></u>

The Board of Directors has recommended a final dividend of 5 HK cents per share (2019: 5 HK cents) to be paid on or before 25 June 2021, subject to shareholders' approval at the forthcoming annual general meeting on 28 May 2021.

10. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the year attributable to owners of the Company of HK\$36,806,000 (2019: HK\$188,726,000) and on 260,000,000 (2019: 260,000,000) ordinary shares in issue during the year.

No diluted loss per share have been presented as there are no potential ordinary shares in issue for both years.

11. TRADE RECEIVABLES

The Group does not have a defined fixed credit policy as its major trade receivables arise from credit card sales and sales by other electronics payment methods.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting periods.

	2020 HK\$'000	2019 HK\$'000
Within 30 days	37,618	35,128
31 to 60 days	158	13
Over 60 days	33	175
	<u>37,809</u>	<u>35,316</u>

12. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting periods.

	2020 HK\$'000	2019 HK\$'000
0 to 60 days	1,054,564	1,076,522
61 to 90 days	61,301	70,460
Over 90 days	115,334	103,105
	<u>1,231,199</u>	<u>1,250,087</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 May 2021 to 28 May 2021 (both days inclusive), for the purpose of determining Shareholders' entitlement to attend and vote at the annual general meeting, during which period no transfers of Shares will be registered. In order to qualify for the attending and voting at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 54 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 24 May 2021.

The Register of Members of the Company will be closed from 3 June 2021 to 4 June 2021 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 54 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 2 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The outbreak of the novel coronavirus (“COVID-19”) in January 2020 and the subsequent prolonged containment measures to halt its spread brought great challenges to the Group’s business in Hong Kong and Mainland China (“PRC”) during the year under review. In response to these challenging circumstances, the Group implemented a number of measures to mitigate the pandemic’s impact on its business operations.

Hong Kong Operations

In the year 2020, customers’ consumption behavior changed significantly. With the majority of the public spending most of their time at home, they have become more aware of the need to improve their living environment as well as overall health and safety. In order to cater to the needs of customers, the Group not only assured the supply of local products, but also sourced merchandise needed by Hong Kong residents from Japan, South East Asia and China by capitalizing on the procurement channels of AEON Group, so as to fulfill its mission of supporting the community. The Group’s supermarket business recorded a year-on-year sales increment of 10-20% higher than the sales increment of the Hong Kong market, given credit to the Group’s ability to strengthen the merchandise assortment during Super Wednesday sales and widened the supply of our private brand Topvalu merchandise.

During the year under review, the Group completed the extensive renovation of its Tuen Mun store, one of its core retail outlets. In order to increase the sales proportion of local customers, the Group enhanced the differentiation of its food division, strengthened the diversity of fresh food available such as fish, meat and vegetables and enriched the portfolio of processed food products which are primarily made in Japan. In addition, the Group reorganized its family-oriented apparel and household merchandise categories, along with the store layout. It also actively introduced new brands under the AEON Japan Group. Moreover, the Group completed small-scale renovations in three stores in Hong Kong, and introduced the homeware brands “HÓME CÓORDY”, “iC innercasual” and “KIDS REPUBLIC” into suitable stores, with the aim of bringing high quality products and a new shopping experience to customers.

“HÓME CÓORDY” primarily provides household products that feature Japanese elements such as simple design, reasonable prices, multi-functionality, and colorful appearance, as well as being easy to mix-and-match. The brand has been well-received by customers. (Four specialty outlets were opened in the Group’s stores.) Moreover, “iC innercasual”, which primarily provides functional underwear, comfortable loungewear and general casual wear, reported a better-than-expected sales performance. (Two specialty outlets were opened in the Group’s stores.)

In order to accelerate the business growth of small specialty stores, in line with the Group’s business plan, the Group opened eleven “Living Plaza” outlets and one lifestyle specialty store “も の も の (Mono Mono)” during the year. Meanwhile, it has reviewed and optimized its store opening, construction and operation infrastructure.

As for daily operations, the Group added more self-service cashier systems and a “POS Express” mobile payment system in suitable stores in order to quicken the payment process and provide greater convenience to customers.

In the year under review, revenue from Hong Kong operations increased by 15.5% to HK\$4,894.3 million (2019: HK\$4,239.0 million). Segment results improved by HK\$177.1 million from a loss of HK\$114.8 million last year to a profit of HK\$62.3 million this year, attributable to sales growth, implementation of effective business plans and government grants received.

BUSINESS REVIEW - continued

PRC Operations

Amidst the outbreak of the pandemic during the first half of the year, the Group obtained the government's approval to continue its food business operations and support the commodity needs of the community. The Group also enhanced the services of its online supermarket in order to address the needs of customers who were unable to leave the house due to COVID-19 preventive measures. In the second half of the year, when the pandemic was brought under control, there was a recovery in the number of customers visiting our stores, although the speed of recovery was slower than anticipated.

Throughout the year, the Group continued with its store expansion plan and had a net increase of three supermarkets.

On 29 November 2020, an accidental fire occurred at the back room of a store in Dongguan city (the "Store"). No personal injury or death was caused. Certain inventories, fixtures, facilities and equipment were damaged. The Store's food department reopened on 25 December 2020 and the other affected areas reopened at end of January 2021. While most of the losses from property damages were compensated by the insurance company, the Group still suffered from the loss of revenue while the Store was closed.

In the year under review, the revenue of the PRC business decreased by 3.6% to HK\$5,067.6 million (2019: 5,254.8 million), with a loss narrowed down to HK\$73.0 million (2019: loss of HK\$80.6 million).

PROSPECTS

The Group believes that COVID-19 will gradually subside in 2021. As the number of people receiving the vaccine increases, consumer sentiment will recover in both Hong Kong and the PRC.

Going forward, the Group will remain focused on realizing its store expansion plans while also implementing and deepening different measures aimed at improving its results. In terms of merchandise improvement, the Group will increase the sales share of private label merchandise under the Topvalu, HÓME CÓORDY, iC innercasual and Sakura Kobo brands, so as to improve the gross profit margin. The Group's merchandise procurement team will also introduce more merchandise, with a particular focus on providing a wider selection of natural and 'green' products to offer our customers greater choice. The Group will continue to invest in digital enhancement for its internet business, enhance customer relationship management programs to increase spending among loyal customers, and further manage its expenses by digitalizing back-end support functions.

Hong Kong Operations

The Group believes that 2021 will be another year of rapid expansion for small specialty stores. In January 2021, the Group opened another lifestyle specialty store, Mono Mono, at Lohas Park. The Group is aiming to at least open the same number of small specialty stores in 2021 as in 2020.

As part of the enhancement of its internet business in Hong Kong, the Group launched cross-border internet sales in January 2021, making merchandise from Japan available to customers in Mainland China.

The Group will also carry out small-scale renovations on four of its large stores in order to provide a better shopping environment for its customers.

PROSPECTS - continued

PRC Operations

Although the number of customers visiting our stores during the second half of 2020 did not meet expectations, the Group believes that looking ahead to 2021, customer footfall will gradually improve. The Group will continue to strengthen its online supermarket business services to address customers' behavioral changes.

The Group will continue with its store development plan, with an aim to open six supermarkets in 2021. One was opened in January 2021 and another one was opened in March 2021.

GROUP

According to the 2021 investment plan, the estimated total capital expenditure is approximately HK\$186 million.

Save as previously mentioned or otherwise disclosed herein, no significant events affecting the Group's business have occurred between 31 December 2020 and the date these consolidated financial statements are authorized for issue.

FINANCIAL REVIEW

Amid a difficult business environment, the Group's revenue increased by 4.9% year-on-year to HK\$9,961.9 million (2019: HK\$9,493.8 million). Gross profit margin dropped 1% to 28.9% (2019: 29.9%).

As for other income, affected by the COVID-19, income derived from sub-lessees and other income decreased by HK\$101.1 million. With the government grants received from the Hong Kong government and municipal governments in PRC totaled HK\$146.4 million to support the Group's business, other income resulted in an overall increase of 7.0% as compared with last year.

As for cost control during the year under review, the Group's staff cost declined by 1.5% and its ratio to revenue dropped to 10.7% (2019:11.3%). Expenses related to the leases also dropped by 2.5% and the ratio of expenses to sales revenue dropped to 12.0% (2019: 12.9%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, also decreased by 2.2% year-on-year and the ratio of other expenses to revenue was 10.4% (2019:11.2%).

Included in other gains and losses, amongst others, exchange gain of HK\$11.6 million (2019: exchange loss of HK\$9.0 million) and insurance claims for damages from fire and flooding accident net of loss amounted to HK\$11.7 million (2019: Nil). In addition, an impairment loss in respect of goodwill of HK\$32.0 million (2019: Nil) was recognized in the year. It was because the performance of those relevant stores operated in mainland China that the goodwill was attached to was affected by the COVID-19 pandemic during the first half of the year and the slow recovery of the customers visiting those stores in the second half of the year.

Due to the above reasons, loss attributable to owners of the Company for the year was HK\$36.8 million (2019: loss of HK\$188.7 million), representing a reduction of HK\$151.9 million.

FINANCIAL REVIEW- continued

The Board proposed a final dividend of HK\$0.05 (2019: HK\$0.05) per share for the year ended 31 December 2020. In the recommendation or declaration of dividends, the Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant. Together with the interim dividend of HK\$0.05 (2019: HK\$0.05) per share paid in the year, total dividends for the year is HK\$0.10 (2019: HK\$0.10) per share.

During the year, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC and the upgrade of information technology systems amounted to HK\$156.5 million.

The Group also entered into new lease agreements and lease modifications in the review year and recognized an additional HK\$576.8 million of right-of-use assets.

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK\$2,001.6 million as at 31 December 2020 (2019: HK\$1,798.1 million). The Group had no bank borrowing and therefore did not disclose any gearing ratio (which is defined by dividing bank borrowings to equity) and had sufficient internal resources to finance future business expansions.

As at year end date, deposits of HK\$25.0 million (2019: HK\$24.1 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$7.6 million (2019: HK\$7.9 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 31 December 2020 amounted to HK\$4,870.6 million (2019: HK\$4,800.7 million), of which HK\$711.1 million (2019: HK\$762.1 million) is payable within one year. The Group's lease liabilities to equity ratio as at 31 December 2020 (defined as the total lease liabilities divided by total equity) was 573% (2019: 530%).

As at 31 December 2020, the Group's current liabilities exceeded its current assets by HK\$94.3 million (2019: net current liabilities of HK\$361.6 million). The Group has a number of financial sources available to fund its operations and in the foreseeable future and will be able to meet its financial obligations when they fall due.

CORPORATE GOALS

The Group will strive to satisfy the basics needs of customers and provide their daily necessities while also adapting to the changes in customer consumption habits. It will (1) continue to uphold the "Everything we do, we do for our customers" credo; (2) realize healthy growth under conditions of fierce competition; (3) concentrate on smooth store operations and (4) roll out innovative ideas and concepts. The Group believes that by implementing these strategies, it will be able to create stable and satisfactory returns for shareholders and stakeholders.

HUMAN RESOURCES

As at 31 December 2020, the Group had approximately 6,500 full-time and 3,100 part-time employees in Hong Kong and the PRC. Under the “Everything we do, we do for our customers” credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. Under a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group’s ultimate goal is to build AEON into a brand that benefits all customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the year ended 31 December 2020 and up to the date of this report.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the year ended 31 December 2020 with the code provisions set out in the Corporate Governance Code (“CG Code”) and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all existing Directors, the Company confirms that they have fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

The Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2020 with management.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report for the year ended 31 December 2020 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

By order of the Board of
AEON Stores (Hong Kong) Co., Limited
Yuki HABU
Chairman

Hong Kong, 25 March 2021

As at the date of this announcement, the Executive Directors are Mr. Isei Nakagawa, Mr. Chak Kam Yuen , Mr. Lau Chi Sum Sam, Mr. Takenori Nagashima and Mr. Shinya Hisanaga ; the Non-executive Directors are Ms. Yuki Habu, Mr. Akinori Yamashita and Mr. Isao Sugawara ; and the Independent Non-executive Directors are Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty, Mr. Chow Chi Tong and Mr. Hideto Mizuno.