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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)

2021 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 2021 together with comparative figures for the previous year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	NOTES	2021 HK\$'000	2020 HK\$'000
Revenue	3	9,554,854	9,961,893
Other income	5	499,658	583,928
Investment income		22,122	22,411
Interest income from rental deposits		10,414	10,767
Purchases of goods and changes in inventories		(6,796,846)	(7,082,877)
Staff costs		(1,101,078)	(1,061,224)
Depreciation of investment properties		(85,369)	(83,913)
Depreciation of property, plant and equipment		(213,325)	(204,694)
Depreciation of right-of-use assets		(753,963)	(724,225)
Lease expenses		(88,818)	(91,275)
Other expenses	6	(1,110,621)	(1,040,881)
Pre-operating expenses		(6,536)	(2,823)
Other gains and losses	7	(136,747)	(14,581)
Interest on lease liabilities		(283,649)	(292,755)
Loss before tax		(489,904)	(20,249)
Income tax expense	8	(13,293)	(9,987)
Loss for the year		<u>(503,197)</u>	<u>(30,236)</u>
(Loss) Profit for the year attributable to:			
Owners of the Company		(469,963)	(36,806)
Non-controlling interest		(33,234)	6,570
		<u>(503,197)</u>	<u>(30,236)</u>
Loss per share - basic	10	<u>HK\$1.81</u>	<u>HK\$0.14</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021	2020
	HK\$'000	HK\$'000
Loss for the year	<u>(503,197)</u>	<u>(30,236)</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")	(867)	(3,750)
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(2,106)</u>	<u>3,279</u>
Other comprehensive expense for the year, net of income tax	<u>(2,973)</u>	<u>(471)</u>
Total comprehensive expense for the year	<u><u>(506,170)</u></u>	<u><u>(30,707)</u></u>
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	(478,440)	(44,931)
Non-controlling interest	<u>(27,730)</u>	<u>14,224</u>
	<u><u>(506,170)</u></u>	<u><u>(30,707)</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021**

	NOTES	2021 HK\$'000	2020 HK\$'000
Non-current Assets			
Property, plant and equipment		580,771	645,756
Right-of-use assets		3,206,344	3,762,037
Investment properties		373,910	479,890
Goodwill		-	62,838
Equity instruments at FVTOCI		18,982	19,848
Pledged bank deposits		24,698	22,417
Deferred tax assets		33,583	44,819
Rental and related deposits paid		217,370	201,724
		<u>4,455,658</u>	<u>5,239,329</u>
Current Assets			
Inventories		953,839	889,997
Trade receivables	11	31,749	37,809
Other receivables, prepayments and deposits		109,408	102,112
Amounts due from fellow subsidiaries		58,581	62,690
Time deposits		285,672	463,740
Pledged bank deposits		11,251	10,230
Bank balances and cash		1,547,893	1,537,837
		<u>2,998,393</u>	<u>3,104,415</u>
Current Liabilities			
Trade payables	12	1,296,730	1,231,199
Other payables, accrued charges and other liabilities		781,175	753,530
Lease liabilities		833,899	711,073
Contract liabilities		481,524	441,548
Dividend payable		272	295
Amount due to ultimate holding company		27,596	26,998
Amounts due to fellow subsidiaries		38,331	28,933
Tax liabilities		209	5,150
		<u>3,459,736</u>	<u>3,198,726</u>
Net Current Liabilities		<u>(461,343)</u>	<u>(94,311)</u>
Total Assets Less Current Liabilities		<u>3,994,315</u>	<u>5,145,018</u>
Capital and Reserves			
Share capital		115,158	115,158
Reserves		88,286	587,498
Equity attributable to owners of the Company		203,444	702,656
Non-controlling interest		119,246	146,976
Total Equity		<u>322,690</u>	<u>849,632</u>
Non-current Liabilities			
Rental deposits received and other liabilities		139,178	135,579
Lease liabilities		3,532,447	4,159,573
Deferred tax liabilities		-	234
		<u>3,671,625</u>	<u>4,295,386</u>
		<u>3,994,315</u>	<u>5,145,018</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021 and 2020 included in these preliminary announcements of annual results for the years ended 31 December 2021 and 2020 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 2020 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 2021 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\$461,343,000 at 31 December 2021. 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 2021. 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 following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the financial statements:

Amendment to HKFRS 16
Amendments to HKFRS 9,
HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16

Covid-19-Related Rent Concessions
Interest Rate Benchmark Reform - Phase 2

2. APPLICATION OF AMENDMENTS TO HKFRSs – continued

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

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year has 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.

2.1 Impacts on application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The Group has applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions for the first time in the current year. The amendments introduce 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 that occurred as a direct consequence of the Covid-19 pandemic 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 ("HKFRS 16") if the changes were 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 of these amendments has had no material impact on the Group's financial positions and performance in the current and prior years as the Group opted not to apply the practical expedient, but applied the applicable requirements of HKFRS 16 to account for rent concessions provided by certain lessors.

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 2021</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	4,189,459	4,753,315	8,942,774
Income from concessionaire sales	326,731	285,349	612,080
	<u>4,516,190</u>	<u>5,038,664</u>	<u>9,554,854</u>

	<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>

(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 defect items.

3. REVENUE– continued

(ii) Performance obligations for contracts with customers – continued

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 2021 and 2020, 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 by reportable segment:

For the year ended 31 December 2021

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Elimination</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	4,516,190	5,038,664	-	9,554,854
Inter-segment sales	-	7,298	(7,298)	-
	<u>4,516,190</u>	<u>5,045,962</u>	<u>(7,298)</u>	<u>9,554,854</u>
Segment loss	(184,146)	(265,042)	-	(449,188)
Investment income				22,122
Impairment loss recognised in respect of goodwill				(62,838)
Loss before tax				<u>(489,904)</u>

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)	-
	<u>4,894,315</u>	<u>5,073,450</u>	<u>(5,872)</u>	<u>9,961,893</u>
Segment profit (loss)	62,309	(72,969)	-	(10,660)
Investment income				22,411
Impairment loss recognised in respect of goodwill				(32,000)
Loss before tax				<u>(20,249)</u>

Segment (loss) profit represents the (loss incurred) profit earned 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 cost

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

	2021 HK\$'000	2020 HK\$'000
Rental income from investment properties	370,974	329,335
Government grants	10,057	146,429
Management fee and other income from sub-leases	80,510	77,094
Others	38,117	31,070
	<u>499,658</u>	<u>583,928</u>

During the year, the Group recognised government grants of HK\$1,600,000 (2020: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\$ 8,457,000 (2020:HK\$ 12,711,000) relating to subsidies granted by municipal governments in PRC.

6. OTHER EXPENSES

	2021 HK\$'000	2020 HK\$'000
Advertising, promotion and selling expenses	296,472	296,380
Maintenance and repair expenses	361,311	337,802
Utilities expenses	170,359	143,811
Administrative expenses	190,828	182,904
Others	91,651	79,984
	<u>1,110,621</u>	<u>1,040,881</u>

7. OTHER GAINS AND LOSSES

	2021 HK\$'000	2020 HK\$'000
Exchange gain , net	15,559	11,551
Impairment loss recognised in respect of goodwill	(62,838)	(32,000)
Impairment loss recognised in respect of property, plant and equipment	(31,093)	(1,049)
Impairment loss recognised in respect of right-of-use assets	(97,199)	(5,413)
Loss on disposal/written off of property, plant and equipment	(694)	(4,703)
Gain on lease modification	39,518	-
Gain on termination of lease contracts	-	5,374
Insurance claims for damages from fire and flooding accident, net of loss incurred amounting to HK\$nil (2020:HK\$11,484,000)	-	11,659
	<u>(136,747)</u>	<u>(14,581)</u>

8. INCOME TAX EXPENSE

	2021 HK\$'000	2020 HK\$'000
The charges comprise:		
Current tax		
PRC Enterprise Income Tax	190	4,736
PRC withholding tax	575	1,843
	<u>765</u>	<u>6,579</u>
Deferred tax		
Current year	7,842	3,408
Over-provision in prior years	4,686	-
Income tax expense for the year	<u>13,293</u>	<u>9,987</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

	2021 HK\$'000	2020 HK\$'000
Final dividend paid for 2020 of 5 HK cents (2020: 5 HK cents for 2019) per ordinary share	13,000	13,000
Interim dividend paid for 2021 of 3 HK cents (2020: 5 HK cents for 2020) per ordinary share	7,800	13,000
	<u>20,800</u>	<u>26,000</u>

The Board of Directors has recommended a final dividend of 2 HK cents per share (2020: 5 HK cents) to be paid on or before 28 June 2022, subject to shareholders' approval at the forthcoming annual general meeting on 30 May 2022.

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\$469,963,000 (2020: HK\$36,806,000) and on 260,000,000 (2020: 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.

	2021 HK\$'000	2020 HK\$'000
Within 30 days	31,489	37,618
31 to 60 days	109	158
Over 60 days	151	33
	<u>31,749</u>	<u>37,809</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.

	2021 HK\$'000	2020 HK\$'000
0 to 60 days	1,157,188	1,054,564
61 to 90 days	22,554	61,301
Over 90 days	116,988	115,334
	<u>1,296,730</u>	<u>1,231,199</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 May 2022 to 30 May 2022 (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 2022.

The Register of Members of the Company will be closed from 9 June 2022 to 10 June 2022 (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 8 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2021, the COVID-19 pandemic continued, slowing down the global economy and adversely affecting the Group's business in Hong Kong and Mainland China. Despite the continued challenges, the Group remains cautiously optimistic about its business prospects and will continue to closely monitor shifts in the market, respond appropriately and adjust its business strategies to ameliorate the impact of the pandemic on its business operations.

Hong Kong Operations

In 2021, as the COVID-19 pandemic was gradually brought under control and daily social, business and economic activities resumed, the sales performance of some merchandise spurred by the pandemic was also affected. Sales of food-related products dropped below those of 2020 after dining out restrictions were relaxed. Sales of cleaning and hygiene-related products also declined due to reduced public demand for related items.

At the same time, due to the prolonging of the pandemic and its serious disruption of the public, the local economy has been slowly recovering, and public sentiment is generally cautious about consumption. For example, the Group's apparel merchandise demand has not improved significantly as it is a non-essential item. And as the birth rate in Hong Kong has continued to decline in recent years, sales demand for baby-related products has remained at a relatively low level.

In the third quarter of 2021, with the assistance of the launch of the first round government consumer voucher scheme and a relatively stabilized pandemic environment, sales performance recorded a slight improvement but such improvement were relatively weaker in the subsequent rounds of consumer voucher scheme launched in the fourth quarter of 2021.

Besides, the continuous emergence of many new stores in the market, coupled with the penetration of e-commerce, have intensified both the online and offline business competition in the retail industry. In view of this, the Group has actively enhanced the shopping experience of customers by providing a wealth of high-quality products and services to the public. To further enhance the Group's on line business services, in February 2021, the Group partnered with foodpanda mall to provide Topvalu food products, HÓME CÓ ORDY household products and frozen food products. By June, the whole line of supermarkets was online, offering sales and home delivery services for a variety of supermarket items.

BUSINESS REVIEW - continued

Hong Kong Operations - continued

During the period, the Group opened Hong Kong's third "AEON STYLE" store in Gala Place, Mongkok. It is the large-scale store to commence operation in recent years; and the stores in Tseung Kwan O, Lai Chi Kok and Tsuen Wan have also undergone small scale renovation works.

In order to promote the business of small specialty stores, the Group signed a long-term licensing agreement with Daiso Japan ("Daiso") to launch a new strategic cooperation in the city. The Group will continue to expand the network of such stores, accelerating related development of AEON Hong Kong.

During the year under review, the Group's Hong Kong operations recorded a revenue of 7.7% decreasing to HK\$4,516.2 million (2020: \$4,894.3 million). This segment results changed from profit of HK\$62.3 million last year to loss of HK\$184.1 million this year, mainly due to the Group did not receive the same amount of government grants from the Hong Kong Government in the year as compared with last year.

PRC Operations

According to the National Bureau of Statistics, although the annual GDP grew by 8.1% (reference http://www.stats.gov.cn/tjsj/sjjd/202201/t20220118_1826523.html) year-on-year, the economic growth declined rapidly on a quarterly basis, especially evident in the 4% medium-to-low growth rate in the fourth quarter. In 2021, the growth rate in the total retail sales of consumer goods has also slowed. These statistics imply that the domestic economy is under downward pressure that cannot be ignored.

Buffeted by the volatile pandemic, and affected by stronger e-commerce marketing and continuous iteration of new business models, the pedestrian flow of the Group's shopping malls and stores has trended downward, and the recovery has been slower than expected. Under the influence of the pandemic, not only has the number of customers lessened and they have become more conservative in shopping, it has also encouraged them to shop in nearby stores or online. Secondly, competition in some regions has become more intense, and the attraction of old shopping malls has decreased significantly, which have more greatly impacted the sales of existing large-scale stores.

In order to cope with the government's pandemic preventive measures, some of the Group's stores have also temporarily suspended operations. In terms of opening stores, the Group will focus on supermarkets and six supermarkets have been opened during the period.

During the period, the Group made various attempts to overcome challenges presented by the pandemic including implementing different measures such as improving e-commerce marketing activities, attracting customers by selling fresh items and strengthening merchandise differentiation, as well as improving loyalty membership management, all aimed at increasing sales and improving revenue.

Revenue from PRC operations in the year decreased by 0.6% to HK\$5,038.7 million (2020: HK\$5,067.6 million). During the period, the PRC business recorded a loss of HK\$265.0 million (2020: loss of HK\$73.0 million).

PROSPECTS

In 2021, the GDP of Mainland China and Hong Kong both recorded growth. Looking ahead, the economy is expected to return to a normal level in 2022 and will gradually improve. However, the pace of macroeconomic growth would still be affected by various uncertainties, especially the pandemic and the continuously complicated and volatile international political situation.

PROSPECTS - continued

Hong Kong Operations

In January 2022, with the outbreak of the fifth wave of the pandemic and the tightening of pandemic preventive measures, social and economic activities in Hong Kong have once again been restricted, which has severely affected the overall economic sentiment. In response to the severity of the pandemic, some of the Group's stores have also temporarily suspended operations to ensure the safety of employees and customers.

Due to the further implementation of social distancing measures, the Group expects that restrictions on dining out and work-at-home arrangements will encourage citizens to stay at home. Demand for food, cleaning products and related items may increase again in the year 2022.

Besides, the Group will open stores in accordance with its pre-set investment plan. The Group has opened the fourth "AEON STYLE" store at Domain Mall, Yau Tong in February 2022, to meet the changing lifestyles of customers in the district. At the same time, the Group will further expand Daiso's network of small specialty stores and explore more strategic cooperation opportunities with other well-known Japanese brands. With the positioning of "high quality, diversity and uniqueness", the Group will continue to provide diversified, high quality merchandise with good value-for-money.

In order to improve operational efficiency and control costs, the Group will optimise the Group's mobile assistant for employees and increasing utilization rate via "Mobile Assistant". In addition to strengthening the use of the self-service cashier system "POS Express", the Group will further deploy cashiering machines to accept and change cash to customers, so as to reduce the workload of cashiers, make better use of existing resources and improve service quality.

PRC Operations

As the economic recovery has slowed down due to the impact of the global economy and the pandemic, domestic consumer sentiment has yet to fully recover. It is believed that customers will be more cautious and rational, and the products they purchase will mainly be practical with good value-for-money.

In response to the continuous advancement of market and technology and the increasing diversification of lifestyles, the Group is determined to carry out structural reform measures, including accelerating and upgrading digital transformation and greater product differentiation, so as to increase revenue and profitability and consolidate the foundation for long-term business development.

The Group will open new stores as originally planned, aiming at opening two supermarkets in the second half of 2022. It will also continuously review the store portfolio and take appropriate action, such as closing one underperforming store in Dongguan in the second quarter of 2022 to improve operational efficiency.

GROUP

Even though the global economy is still overwhelmed by uncertainties, consumer spending habits rapidly change and competition in the retail and department store industry is intensifying, the Group will adhere to its "Customer First" philosophy and continue to promote innovation while excelling in its own business, so as to bring a new retail experience to customers. AEON will invest more resources to promote business digitalisation, strengthen sales through online sales platforms and optimise customer relationship management of the AEON App, as well as improve operational efficiency and reduce costs, so as to improve performance and enhance the overall competitiveness of the Group.

PROSPECTS - continued

GROUP- continued

According to the 2022 investment plan, total capital expenditure is expected to be approximately HK\$180 million.

Save as previously mentioned or otherwise disclosed herein, no significant events affecting the Group's business have occurred between 31 December 2021 and the date these consolidated financial statements are authorized for issue.

FINANCIAL REVIEW

In the year 2021, the Group's revenue decreased by 4.1% year-on-year to HK\$9,554.9 million (2020: HK\$9,961.9 million). Gross profit margin maintained at 28.9% (2020: 28.9%).

As for other income, income derived from sub-lessees and other income increased by HK\$52.2 million (2020: decreased by HK\$101.1 million), resulted from the recovery of sub-lessee business during the year whilst it was severely been affected during the outbreak of COVID-19 in last year. However, government grants received from the Hong Kong government and municipal governments in PRC decreased by HK\$136.4 million to HK\$10.0 million (2020: HK\$146.4 million). Other income resulted in an overall decrease of 14.4% as compared with last year.

As for operating expenses during the year under review, the Group's staff cost increased by 3.8% and its ratio to revenue increased to 11.5% (2020: 10.7%). Expenses related to the leases increased by 1.6% and the ratio of expenses to sales revenue also increased to 12.7% (2020: 12.0%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, also increased by 6.7% year-on-year and the ratio of other expenses to revenue was 11.6% (2020: 10.4%).

Included in other gains and losses, amongst others, was exchange gain of HK\$15.6 million (2020: exchange gain of HK\$11.6 million). In addition, impairment loss in respect of goodwill of HK\$62.8 million (2020: HK\$32.0 million), impairment loss in respect of property, plant and equipment of HK\$31.1 million (2020: HK\$1.0 million) and impairment loss in respect of right-of-use assets of HK\$97.2 million (2020: HK\$5.4 million) were recognized in the year.

Due to the above reasons, loss attributable to owners of the Company for the year was HK\$470.0 million (2020: loss of HK\$36.8 million), representing an increment of HK\$433.2 million.

The Board proposed a final dividend of HK\$0.02 (2020: HK\$0.05) per share for the year ended 31 December 2021. 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\$0.03 (2020: HK\$0.05) per share paid in the year, total dividends for the year is HK\$0.05 (2020: 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\$165.5 million.

The Group also entered into new lease agreements and lease modifications in the year and recognized an additional right-of-use assets of HK\$268.3 million (2020: HK\$576.8 million).

FINANCIAL REVIEW- continued

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK\$1,833.6 million as at 31 December 2021 (2020: HK\$2,001.6 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\$28.0 million (2020: HK\$25.0 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$8.0 million (2020: HK\$7.6 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 31 December 2021 amounted to HK\$4,366.3 million (2020: HK\$4,870.6 million), of which HK\$833.9 million (2020: HK\$711.1 million) is payable within one year. The Group's lease liabilities to equity ratio as at 31 December 2021 (defined as the total lease liabilities divided by total equity) was 1,353% (2020: 573%).

As at 31 December 2021, the Group's current liabilities exceeded its current assets by HK\$461.3 million (2020: net current liabilities of HK\$94.3 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 basic 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 2021, the Group had approximately 5,900 full-time and 3,900 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. With 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 2021 and up to the date of this report.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the year ended 31 December 2021 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 2021.

The Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2021 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 2021 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 2021 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
Isei NAGAKAWA
Chairman

Hong Kong, 25 March 2022

As at the date of this announcement, the Executive Directors are Mr. Isao Sugawara, Mr. Chak Kam Yuen, Mr. Takenori Nagashima and Mr. Shinya Hisanaga ; the Non-executive Directors are Mr. Isei Nagakawa, Ms. Yuki Habu, Mr. Makoto Fukuda and Mr. Hiroyuki Inohara; and the Independent Non-executive Directors are Ms. Chan Yi Jen Candi Anna, Mr. Chow Chi Tong, Mr. Hideto Mizuno and Ms. Law Chi Yan Joyce.