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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)

2022 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 2022 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	**2022** **HK$'000**	2021 HK$'000
Revenue	3	**9,571,321**	9,554,854
Other income	5	**483,692**	499,658
Investment income		**22,215**	22,122
Interest income from rental deposits		**10,802**	10,414
Purchases of goods and changes in inventories		**(6,750,962)**	(6,796,846)
Staff costs		**(1,100,476)**	(1,101,078)
Depreciation of investment properties		**(68,861)**	(85,369)
Depreciation of property, plant and equipment		**(179,290)**	(213,325)
Depreciation of right-of-use assets		**(733,304)**	(753,963)
Lease expenses		**(73,253)**	(88,818)
Other expenses	6	**(1,122,805)**	(1,110,621)
Pre-operating expenses		**(2,866)**	(6,536)
Other gains and losses	7	**(39,186)**	(136,747)
Interest on lease liabilities		**(236,545)**	(283,649)
Loss before tax		**(219,518)**	(489,904)
Income tax expense	8	**(5,198)**	(13,293)
Loss for the year		**(224,716)**	(503,197)
Loss for the year attributable to:			
Owners of the Company		**(219,872)**	(469,963)
Non-controlling interest		**(4,844)**	(33,234)
		(224,716)	(503,197)
Loss per share (basic and diluted)	10	**(84.57)** **HK Cents**	(180.76) HK Cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	HK$'000	HK$'000
Loss for the year	**(224,716)**	(503,197)
Other comprehensive income / (loss)		
Item that will not be reclassified to profit or loss:		
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	**(56)**	(867)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of operations outside Hong Kong	**16,896**	(2,106)
Other comprehensive income / (loss) for the year, net of income tax	**16,840**	(2,973)
Total comprehensive loss for the year	**(207,876)**	(506,170)
Total comprehensive loss for the year attributable to:		
Owners of the Company	**(190,778)**	(478,440)
Non-controlling interest	**(17,098)**	(27,730)
	(207,876)	(506,170)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

	NOTES	**2022**	2021
		HK$'000	HK$'000
Non-current Assets			
Property, plant and equipment		**431,155**	580,771
Right-of-use assets		**2,496,964**	3,206,344
Investment properties		**280,181**	373,910
Equity instruments at FVTOCI		**18,925**	18,982
Pledged bank deposits		**22,643**	24,698
Time deposits		**6,068**	-
Deferred tax assets		**25,670**	33,583
Rental and related deposits paid		**220,507**	217,370
		3,502,113	4,455,658
Current Assets			
Inventories		**892,697**	953,839
Receivables, prepayments and deposits	11	**152,495**	141,157
Amounts due from fellow subsidiaries		**59,025**	58,581
Time deposits		**289,524**	285,672
Pledged bank deposits		**7,785**	11,251
Bank balances and cash		**1,133,879**	1,547,893
		2,535,405	2,998,393
Current Liabilities			
Trade payables	12	**1,088,346**	1,296,730
Other payables, accrued charges and other liabilities		**731,711**	781,175
Lease liabilities		**827,036**	833,899
Contract liabilities		**436,711**	481,524
Dividend payable		**213**	272
Amount due to ultimate holding company		**27,030**	27,596
Amounts due to fellow subsidiaries		**39,918**	38,331
Tax Payables		**187**	209
		3,151,152	3,459,736
Net Current Liabilities		**(615,747)**	(461,343)
Total Assets Less Current Liabilities		**2,886,366**	3,994,315
Capital and Reserves			
Share capital		**115,158**	115,158
Reserves		**(115,432)**	88,286
Equity attributable to owners of the Company		**(274)**	203,444
Non-controlling interest		**102,148**	119,246
Total Equity		**101,874**	322,690
Non-current Liabilities			
Rental deposits received and other liabilities		**130,200**	139,178
Lease liabilities		**2,654,292**	3,532,447
		2,784,492	3,671,625
Total Equity and Non-current Liabilities		**2,886,366**	3,994,315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 and 2021 included in these preliminary announcements of annual results for the years ended 31 December 2022 and 2021 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 2021 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 2022 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$615,747,000 at 31 December 2022. 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 2022. 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 2022 for the preparation of the financial statements:

Amendments to HKAS 16	*Property, plant and equipment: Proceeds before intended use*
Amendments to HKAS 37	*Provisions, contingent liabilities and contingent assets: Onerous contracts - cost of fulfilling a contract*

2. APPLICATION OF AMENDMENTS TO HKFRSs – continued

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

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.

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

	For the year ended 31 December 2022		
	Hong Kong	**PRC**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Direct sales	**4,263,554**	**4,761,238**	**9,024,792**
Income from concessionaire sales	**321,757**	**224,772**	**546,529**
	4,585,311	**4,986,010**	**9,571,321**

	For the year ended 31 December 2021		
	Hong Kong	PRC	Total
	HK$'000	HK$'000	HK$'000
Direct sales	4,189,459	4,753,315	8,942,774
Income from concessionaire sales	326,731	285,349	612,080
	4,516,190	5,038,664	9,554,854

(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 accepted by 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.

3. REVENUE– continued

(ii) Performance obligations for contracts with customers – continued

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. Because the sales amount returned has been steady for years, it is highly probably that a significant reversal in the cumulative revenue recognised will not occur.

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 2022 and 2021, 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 2022

	Hong Kong	**PRC**	**Elimination**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Segment revenue - external	**4,585,311**	**4,986,010**	**-**	**9,571,321**
Inter-segment sales	**-**	**7,019**	**(7,019)**	**-**
	4,585,311	**4,993,029**	**(7,019)**	**9,571,321**
Segment loss	**(124,197)**	**(117,536)**	**-**	**(241,733)**
Investment income				**22,215**
Loss before tax				**(219,518)**

4. OPERATING SEGMENTS– continued

Segment revenues and results– continued

For the year ended 31 December 2021

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

Segment loss represents the 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 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

	2022 HK$'000	2021 HK$'000
Rental income from investment properties	**347,056**	370,974
Government grants	**28,990**	10,057
Management fee and other income from sub-leases	**63,572**	80,510
Others	**44,074**	38,117
	483,692	499,658

During the year, the Group recognised government grants of HK$26,400,000 (2021:HK$1,600,000) from Places of Public Entertainment Licence Holder Subsidy Scheme, Food Licence Holders Subsidy Scheme and Employment Support Scheme under Anti-Epidemic Fund of the Hong Kong Government, and HK$ 2,590,000 (2021:HK$ 8,457,000) relating to subsidies granted by municipal governments in PRC.

6. OTHER EXPENSES

	2022 HK$'000	2021 HK$'000
Advertising, promotion and selling expenses	**329,068**	296,472
Maintenance and repair expenses	**369,252**	361,311
Utilities expenses	**164,036**	170,359
Administrative expenses	**211,369**	190,828
Others	**49,080**	91,651
	1,122,805	1,110,621

7. OTHER GAINS AND LOSSES

	2022 HK$'000	2021 HK$'000
Exchange (loss) / gain, net	**(25,534)**	15,559
Impairment loss recognised in respect of goodwill	**-**	(62,838)
Impairment loss recognised in respect of property, plant and equipment	**(26,749)**	(31,093)
Impairment loss recognised in respect of right-of-use assets	**(1,925)**	(97,199)
Loss on disposal/written off of property, plant and equipment	**(4,899)**	(694)
Gain on lease modification	**19,921**	39,518
	(39,186)	(136,747)

8. INCOME TAX EXPENSE

	2022 HK$'000	2021 HK$'000
The charges comprise:		
Current tax		
PRC Enterprise Income Tax	**-**	190
PRC withholding tax	**540**	575
	540	765
Deferred tax		
Current year	**4,658**	7,842
Over-provision in prior years	**-**	4,686
Income tax expense for the year	**5,198**	13,293

No provision for Hong Kong Profits Tax is made as the Group sustained tax loss 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

	2022	2021
	HK$'000	HK$'000
Final dividend paid for 2021 of 2 HK cents (2021: 5 HK cents for 2020) per ordinary share	**5,200**	13,000
Interim dividend paid for 2022 of 3 HK cents (2021: 3 HK cents for 2021) per ordinary share	**7,800**	7,800
	13,000	20,800

The Board of Directors has recommended a final dividend of 2 HK cents per share (2021: 2 HK cents) to be paid on or before 28 June 2023, subject to shareholders' approval at the forthcoming annual general meeting on 30 May 2023.

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$219,872,000 (2021: HK$469,963,000) and on 260,000,000 (2021: 260,000,000) ordinary shares in issue during the year.

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

11. ACCOUNTS RECEIVABLES

The Group's accounts receivables arise from retail sales transactions settled by credit cards or other electronic payment methods. The average settlement period for the proceeds receivable from those credit cards and other electronic payments service providers is 10 days. Based on the ageing of accounts receivable as determined based on invoice date, HK$38,470,000 (2021: HK$31,489,000) is due within 30 days. There are no significant overdue balances of those accounts receivable at the end of reporting period and no default is expected.

12. TRADE PAYABLES

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

	2022	2021
	HK$'000	HK$'000
0 to 60 days	**930,506**	1,157,188
61 to 90 days	**63,945**	22,554
Over 90 days	**93,895**	116,988
	1,088,346	1,296,730

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 May 2023 to 30 May 2023 (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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 23 May 2023.

The Register of Members of the Company will be closed from 8 June 2023 to 9 June 2023 (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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 7 June 2023**.**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Owing to the continued outbreak of COVID-19 pandemic, coupled with the instable geopolitical landscape, fluctuated energy prices and supply chain disruption, various countries have seen a significant slowdown in growth momentum. Hence, the Group's operations in Hong Kong and mainland China (the "PRC") inevitably continued to be affected in the past year. Fortunately, the Group timely and flexibly adjusted its business strategies and actively responded to the changes and challenges in the macro environment.

Hong Kong Operations

The Group has overcome a difficult year in the 2022 with the outbreak of fifth wave of Covid-19 pandemic but has seized the business opportunity of the distribution of consumption voucher from the Government. In January 2022, the outbreak of the fifth wave of the pandemic hit the recovering economy and the retail sector remained weak. Consequently, the Group's sales performance in the first quarter of 2022 was affected. In the second quarter of 2022, fuelled by a new round of Consumption Voucher Scheme introduced by the government and the relatively stable pandemic condition, the Group's sales performance was slightly improved. Its sales performance in the month, when the second round of the consumption voucher was issued by the government, was also better than that in other months. In the second half of the year, the external environment worsened. The stock markets slipped and the major central banks raised increased interest rates sharply. Under the pressure of global inflation, the interest rate on Hong Kong dollar denominated borrowings rose. Given the tightened financial conditions, no significant improvement was seen in the citizens' consumption sentiment. However, sales performance was stabilized in those months in the second half year when the government issued the other round of consumption voucher.

Facing the increase of merchandise costs pressure, the Group continued to increase the proportion of its house brand products, e.g. Topvalu and HomeCoordy to improve its gross margins.

After the opening of AEON STYLE in Mong Kok in 2021, the Group opened the fourth AEON STYLE store in Hong Kong in Domain, Yau Tong in February 2022, delivering higher quality, more convenient and more pleasant shopping experience to the customers in neighboring areas. To consolidate and optimize its resource allocation, the Group closed its Lam Tin Store in March 2022.

BUSINESS REVIEW - continued

Hong Kong Operations - continued

As for the small specialty store business, the Group continued to advance its strategic cooperation with Daiso Japan (Daiso Industries Co., Ltd.) (“DAISO”) and expanded the network of such stores. In June 2022, DAISO’s flagship store was opened in Mong Kok and it introduced Threeppy, a new brand adopting the theme "Happy Life Begins with 300 Yen", for the first time. With the existing foundation of Daiso, the store offers more products directly imported from Japan and more diverse product categories to satisfy the daily needs of different customers.

To expedite the development of AEON Hong Kong’s specialty restaurant chain business, the Group entered into a regional franchise agreement in May 2022 with KOMEDA Co., Ltd, a well-known coffee shop chain, which originated from Nagoya, Japan, with the aim of operating business of "KOMEDA’s Coffee" in Hong Kong. The first “KOMEDA'S Coffee" in Hong Kong was opened at AEON STYLE Whampoa Store in October 2022, offering customers "the most relaxing place" and a brand-new Japanese dining experience.

To pursue digital upgrades, in the fourth quarter of the year, the Group introduced cashiering machine that accept payment and exchange cash for customers in order to reduce the workload of cashiers and make better use of existing resources to enhance the quality of services. During the year, the Group also carried out the upgrading of the AEON App, updating and improving the existing design and services. Hence, by providing better user experience, the customer relationship management has been optimised, the operational efficiency has been raised and the costs have been reduced. It is expected it will further drive the performance of the e-commerce business.

During the year under review, revenue from the Group’s Hong Kong operations has reached its second highest record and increased by 1.5% to HK$4,585.3 million (2021: HK$4,516.2 million). This segment results recorded a loss of HK$124.2 million during the year (2021: loss of HK$184.1 million).

PRC Operations

During the year, the “dynamic zero-COVID” pandemic prevention policy characterized by rapid lockdowns, large-scale testing and long quarantine time had dealt a blow to the Chinese economy. The real estate industry, which accounts for a quarter of the PRC economy, also faced crisis that aggravated the deterioration of overall economic environment. According to the National Bureau of Statistics, the annual GDP of the PRC was 3.0% in 2022, which is far below the 5.5% GDP growth target set by the authorities. The pace of economic recovery in the country was also slow due to weak domestic demand and volatile international conditions.

In the first half year, there was mass COVID-19 outbreak in the PRC, with confirmed cases in Guangdong Province and Shenzhen. To comply and follow respective pandemic prevention measures imposed by local governments, the Group had to temporarily shut down some of its stores and shorten business hours during the year, resulting in a reduction in overall customer flow and causing certain impact on its business.

Domestic economic growth continued to slow down in the second half year as the nationwide pandemic situation heated up with surging number of confirmed cases. At the end of the year, the Chinese government announced the relaxation of prevention measures and epidemic rebound followed immediately. Since the medical systems in the community endured greater pressure and the society has not yet returned to normal operations, consumption sentiment remained weak.

During the year, the Group continued to review the performance of its stores and closed the underperforming store in Dalang, Dongguan in May 2022 and one supermarket in Guangzhou in December 2022 to lighten its financial burden. In addition in December, the Group executed its previously set store opening plan and inaugurated a new supermarket in Guangzhou.

BUSINESS REVIEW - continued

PRC Operations - continued

Revenue from PRC operations in the year decreased by 1.0% to HK$4,986.0 million (2021: HK$5,038.7 million). During the year, the PRC business recorded a loss of HK$117.5 million (2021: loss of HK$265.0 million).

PROSPECTS

Hong Kong Operations

With the relaxation of anti-epidemic measures in both the PRC and Hong Kong and the reopening of borders, the number of tourists to Hong Kong is expected to rebound significantly. Together with the improvement in cargo flow will provide strong driver for the recovery of Hong Kong's export, tourism, retail and catering industries. However, the persistent global geopolitical tensions and external challenges, such as the potential global economic recession will continue to pose risks to Hong Kong’s sustainable development. Also, due to higher inflationary pressure and cost of living, consumer sentiment is expected to remain cautious.

In addition to further expanding DAISO’s network of small specialty store, the Group will also explore more strategic cooperation opportunities with other well-known Japanese brands and provide diversified, superior merchandise with good value-for-money to articulate its “high quality, diversity and uniqueness” positioning. The Group also plans to open more KOMEDA's Coffee stores in 2023 to gradually expand its catering business.

In the post-pandemic era, the Group will continue to advance its digital transformation, such as improving operational efficiency and controlling costs through the adoption of “Mobile Assistant”, as well as expanding the utilisation of cashiering machines that accept payment and exchange cash and the application scope of the AEON App. Such actions will help the Group bring together online and offline strengths and maximize benefits.

PRC Operations

As a result of the large-scale COVID-19 outbreak in the PRC in late 2022, the number of confirmed cases in Guangzhou is believed to remain high in early 2023, which may continue to bring uncertainties to the market and hinder economic recovery. However, in the long run, as the Chinese government actively reopens its borders, economic activities in the country will gradually return to normal and the sentiment in the retail market will also pick up progressively

The Group will continue to review its store mix and make appropriate arrangements. In January and February 2023, the Group has closed a supermarket in Guangzhou and a store in Shenzhen to improve operational efficiency. In addition, the Group will explore more expansion opportunities based on market development in 2023.

GROUP

In response to the continuous development of the market and technology, rapid changes in customer spending habits and fierce competition in the retail and department store industry, the Group has kept abreast of the times and adjusts its business strategies in due course. In the future, the Group will implement three major development strategies to improve operational performance: 1) conduct merchandise reform; 2) accelerate digital transformation; and 3) optimize physical stores.

PROSPECTS - continued

GROUP - continued

In addition to increasing product categories and achieving product differentiation based on customer preferences, the Group will also increase the penetration rate of its proprietary brands to increase revenue and profitability. In terms of online marketing, the Group will improve efficiency of delivery and enhance the functions of AEON App to strengthen the efficiency of retail operations by making full use of online platforms. Physical stores will also be upgraded to provide customers with a more comfortable shopping experience. Besides, the Group will conduct diversified online and offline promotions to attract more new and existing customers, improve performance and enhance the overall competitiveness of the Group.

According to the 2023 investment plan, total capital expenditure is estimated to be approximately HK$128 million for new store openings, store renovations and investments in digital transformation.

Except as described above or disclosed in other ways, from 31 December 2022 to the date when the issuance of these consolidated financial statements is authorized, no significant events affecting the business of the Group have occurred.

FINANCIAL REVIEW

In the year 2022, the Group's revenue increased by 0.2% year-on-year to HK$9,571.3 million (2021: HK$$9,554.9 million). Gross profit margin reached 29.5% (2021: 28.9%).

As for other income, income derived from sub-lessees and others decreased by HK$34.9 million (2021: increased by HK$52.2 million), affected by the COVID-19 pandemic in the year. However, government grants received from the Hong Kong government and municipal governments in the PRC increased by HK$18.9 million to HK$28.9 million (2021: HK$10.0 million). Other income resulted in an overall decrease by 3.2% as compared with last year.

For operating expenses during the year under review, the Group's staff cost decreased by 0.1% and its ratio to revenue maintained at 11.5% (2021: 11.5%). Expenses related to leases decreased by 8.2% and the ratio of expenses to revenue also decreased to 11.6% (2021: 12.7%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, increased by 1.1% year-on-year and the ratio of other expenses to revenue was 11.7% (2021: 11.6%).

Included in other gains and losses, amongst others, was exchange loss of HK$25.5 million (2021: exchange gain of HK$15.6 million). In addition, impairment loss in respect of goodwill of HK$ Nil million (2021: HK$62.8 million), impairment loss in respect of property, plant and equipment of HK$26.7 million (2021: HK$31.1 million) and impairment loss in respect of right-of-use assets of HK$1.9 million (2021: HK$97.2 million) were recognized in the year.

Due to the above changes, loss attributable to owners of the Company for the year was HK$219.9 million (2021: loss of HK$470.0 million), representing a decrease of HK$250.1 million.

The Group's adjusted EBITDA (which is defined by EBITDA less interest on lease liabilities and repayment of lease liabilities) for the year was loss HK$60.8 million (2021: loss HK$65.9 million), decreased by HK$5.1 million.

FINANCIAL REVIEW- continued

The Board proposed a final dividend of HK$0.02 (2021: HK$0.02) per share for the year ended 31 December 2022. 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 (2021: HK$0.03) per share paid in the year, total dividends for the year is HK$0.05 (2021: HK$0.05) 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$94.3 million.

The Group also entered into new lease agreements and lease modifications in the year and recognized additional right-of-use assets of HK$173.5 million (2021: HK$268.3 million).

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK$1,423.4 million as at 31 December 2022 (2021: HK$1,833.6 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$23.7 million (2021: HK$28.0 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$6.7 million (2021: HK$8.0 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group’s total lease liabilities as at 31 December 2022 amounted to HK$3,481.3 million (2021: HK$4,366.3 million), of which HK$827.0 million (2021: HK$833.9 million) is payable within one year. The Group’s lease liabilities to equity ratio as at 31 December 2022 (defined as the total lease liabilities divided by total equity) was 3,417% (2021: 1,353%).

As at 31 December 2022, the Group’s current liabilities exceeded its current assets by HK$615.8 million (2021: net current liabilities of HK$461.3 million). The directors consider that the Group has sufficient financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

HUMAN RESOURCES

As at 31 December 2022, the Group had approximately 5,900 full-time and 3,800 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 2022 and up to the date of this report.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the year ended 31 December 2022 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 except for the deviation disclosed below:

Rule 3.10A of the Listing Rules provides that a listed issuer must appoint independent non-executive directors representing at least one-third of the board. Following Ms. LO Miu Sheung Betty's resignation with effect from 1 January 2022, the number of Independent Non-executive Directors fell below one-third of the Board members. On 28 January 2022, the Board appointed Ms. LAW Chi Yan Joyce as an Independent Non-executive Director. Following Ms. LAW's appointment, the Company has complied with Rule 3.10A 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 2022.

The Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2022 with management.

SCOPE OF WORK OF THE COMPANY'S AUDITOR IN RESPECT OF THIS PRELIMINARY ANNOUNCEMENT

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been agreed by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other 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 the auditor.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report for the year ended 31 December 2022 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, 28 March 2023

As at the date of this announcement, the Executive Directors are Mr. Takenori Nagashima and Mr. Shinya Hisanaga; the Non-executive Directors are Mr. Isei Nakagawa, Mr. Makoto Fukuda and Mr. Hiroyuki Inohara; and the Independent Non-executive Directors are Mr. Chow Chi Tong, Mr. Hideto Mizuno and Ms. Shum Wing Ting.