AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2022 Annual Report

Stock Code: 984

KOMEDA'S Coffee
HONG KONG

ÆON STYLE
油塘

ものもの
Mono Mono
天水圍

THREEPPY

永旺
奇樂思俱樂部
AEON CHEERS CLUB

AEON 幸福的黃色小票

AEON Scholarship
永旺獎學金

網上訂單
自取站
Online Order Pickup


Hongkong

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. NAGASHIMA Takenori *(Managing Director)*
Mr. HISANAGA Shinya

Non-executive Directors

Mr. NAKAGAWA Isei *(Chairman)*
Mr. FUKUDA Makoto
Mr. INOHARA Hiroyuki

Independent Non-executive Directors

Mr. CHOW Chi Tong
Mr. MIZUNO Hideto
Ms. SHUM Wing Ting

NOMINATION COMMITTEE

Mr. NAKAGAWA Isei *(Chairman)*
Mr. CHOW Chi Tong
Mr. MIZUNO Hideto
Ms. SHUM Wing Ting

REMUNERATION COMMITTEE

Ms. SHUM Wing Ting *(Chairman)*
Mr. NAKAGAWA Isei
Mr. CHOW Chi Tong
Mr. MIZUNO Hideto

AUDIT COMMITTEE

Mr. CHOW Chi Tong *(Chairman)*
Mr. NAKAGAWA Isei
Mr. MIZUNO Hideto
Ms. SHUM Wing Ting

COMPANY SECRETARY

Mr. CHAN Kwong Leung Eric

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance

PRINCIPAL BANKERS

Mizuho Bank, Ltd.
MUFG Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

SHARE REGISTRARS

Tricor Secretaries Limited
17/F Far East Finance Centre
16 Harcourt Road
Hong Kong

REGISTERED OFFICE

G-4 Floor, Kornhill Plaza (South)
2 Kornhill Road, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 07-11, 26/F, CDW Building
388 Castle Peak Road
Tsuen Wan, New Territories, Hong Kong
Tel: (852) 2565 3600
Fax: (852) 2563 8654

STOCK CODE

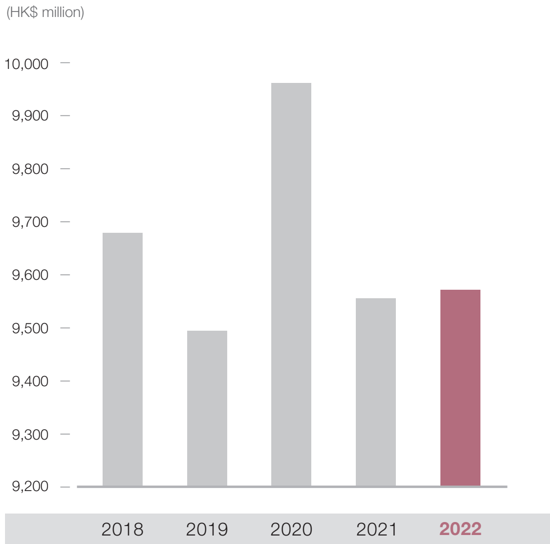
984

WEBSITE

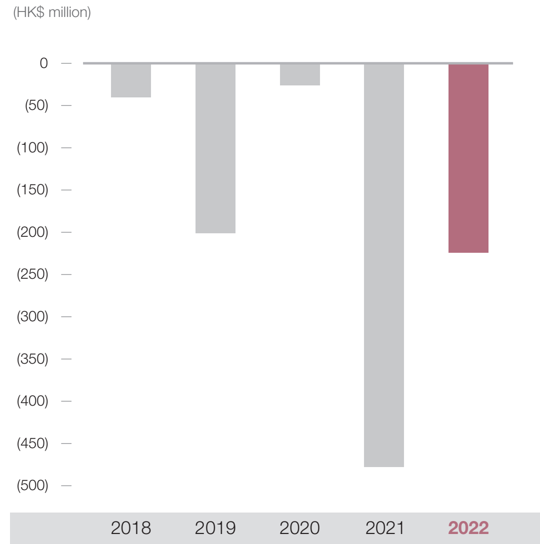
www.aeonstores.com.hk

FINANCIAL HIGHLIGHTS

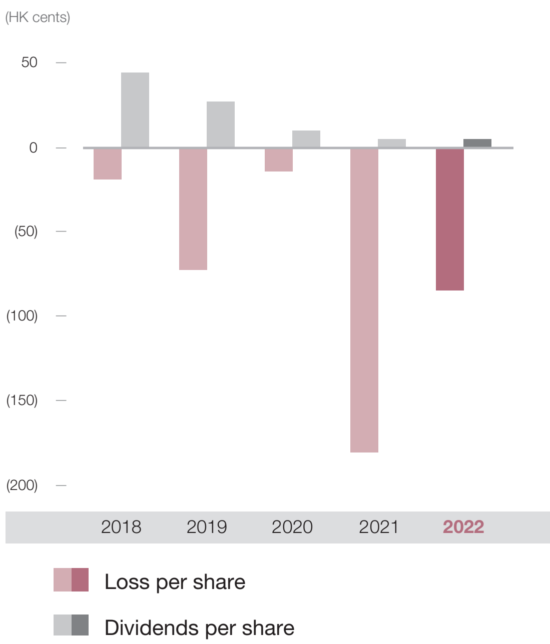
Revenue



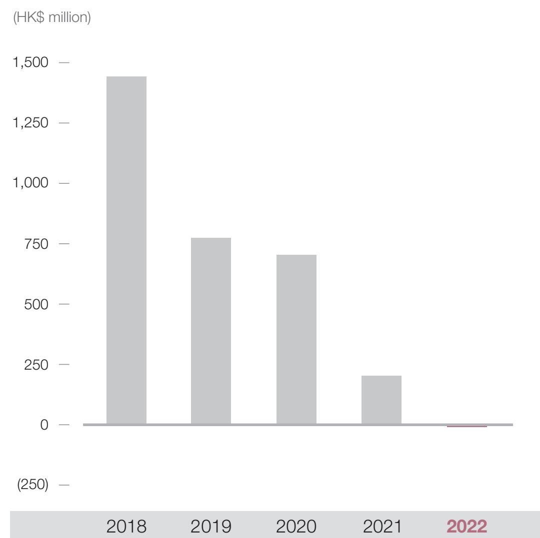
Loss Attributable to Owners of the Company



Loss and Dividends per Share



Equity Attributable to Owners of the Company



CHAIRMAN'S STATEMENT

Dear Shareholders,

The COVID-19 pandemic remained rampant across the globe in 2022, with subvariants of the virus driving significant spikes in COVID-19 cases. In Mainland China, epidemic control policies were much stricter compared to the previous year as the risk of infection rose. This stringent control had a jarring impact on the Group's business, particularly in terms of business suspensions and shortened business hours. The subsequent closure of shopping malls where our shops are located, the closure of residential communities and mass COVID-19 testing requirements also made it difficult for customers to patronize our stores and affected the Group's overall sales performance.

On the other hand, sales of private label merchandise improved significantly compared to last year, but there is still room for further improvement. The Group plans to strengthen its various online supermarket initiatives in order to compete in the e-commerce arena, deepen the implementation of digital transformation, increase customer use of its mobile AEON App and improve customer service capabilities in order to drive growth in online sales and maintain customer loyalty. To optimize back-office operational support, we deployed the Group's "Mobile Assistant" and encouraged employees to use it to improve their productivity.

In addition to e-commerce development, the Group has opened new physical stores in Mainland China to drive growth and strengthen its foothold in the Greater Bay Area. In Hong Kong, customers warmly welcomed the opening of AEON STYLE Yau Tong in March last year and the first KOMEDA'S Coffee in Hong Kong at AEON STYLE Whampoa in October. We believe that the renowned Japanese coffee chain has great potential for growth and expansion through the Group's strong and established network.

Looking ahead, the mass relaxation of epidemic control policies in Mainland China late last year has raised hopes for economic recovery in both Mainland China and Hong Kong, albeit with modest expectations for GDP growth. For the retail sector, the removal of COVID-19 restrictions and the resumption of cross-border activity will stimulate a gradual increase in customer traffic. However, it also underscores the need to strengthen product and service capabilities to boost competitiveness among brick-and-mortar retailers.

Although total retail sales of consumer goods remained weak, the online retail component continued to show steady growth over the past year. With the size of the online retail market expected to grow at a double-digit rate in the future, our focus this year is to strengthen our e-commerce presence and ensure that the Group's online supermarket business is on a par with competing e-commerce businesses in terms of sales volume and popularity.

Looking forward, the Group's key strategies to improve business performance namely the three pillars of product reform, accelerated digital transformation, and new physical store development and revitalization of existing stores. The primary focus is on increasing the number of points of sale for developed merchandise with higher profit margins. Our direct sales plan for our Mainland China and Hong Kong operations is to rely less on consignment products and increase sales of products from our own supply chain. In terms of digital transformation, we plan to attract customers to use the mobile AEON App by implementing various product promotions and to increase the proportion of online and delivered orders by enhancing the core functions of the App. The AEON App will be officially launched in Hong Kong in 2023, and we look forward to the growth it will bring to our online supermarket business in the region. Ultimately, we understand that our ability to implement effective promotions to drive sales depends on advancing the use of our customer base while continually accelerating our digital transformation.

We are fully committed to implementing the above strategies in order to strategically position ourselves in the changing business environment and to seize any opportunities that arise in the "New Normal." With our "Customer First" philosophy and "everything we do, we do for our customers" service credo, we look forward to providing the best quality service to our customers and enhancing the shopping experience both online and offline to become the retailer of choice for all customers in the region.

On behalf of the Board, I would like to express my heartfelt thanks to our shareholders for their unwavering support over the years.

NAKAGAWA Isei
Chairman

Hong Kong, 28 March 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, fueled 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 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.

The First Threepy
Opened in Daiso Mong Kok Store

KOMEDA's Coffee
Whampoa Opening Ceremony

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).

MANAGEMENT DISCUSSION AND ANALYSIS

AEON Guangdong Shiguanghui Shop Grand Opened in Guangzhou

AEON Mobile App upgraded

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 2022, the Group executed its previously set store opening plan and inaugurated a new supermarket in Guangzhou.

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 shops in 2023 to gradually expand its catering business.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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, repair and building management fees, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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.

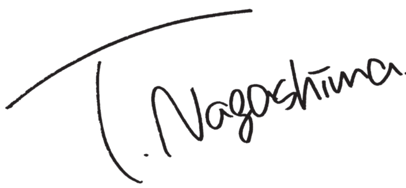
As at year end date, deposits of HK$23.7 million (2021: HK$28.0 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$6.7 million (2021: HK$8.0 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

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 5,600 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.



NAGASHIMA Takenori
Managing Director

Hong Kong, 28 March 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is committed to the sustainable development of the environment and our society.

GOVERNANCE STRUCTURE

The Board of Directors of the Company acknowledges its responsibilities for overseeing the Group's Environmental, Social and Governance ("ESG") reporting.

The Company's Director in charge of Administration, leading a working group, is responsible for setting out the strategy, identify and manage material ESG-related issues and submit annual report to the Board for review.

The Company has complied with the provisions contained in the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REPORTING PRINCIPLES

The annual ESG report is prepared according to the principles of:

Materiality

The Director in charge of Administration, leading an internal working group, identifies and set out criteria for the selection of material ESG factors;

Quantitative

For the reporting of emissions/energy consumption data, the working group obtains consumption data with reference to utilities bills and calculates the relevant data for reporting with reference to conversion factors provided by utilities companies or The International System of Units (SI);

Consistency

Quantitative ESG data will be measured and reported consistently. Any changes to the reporting methods will be disclosed, if any.

REPORTING BOUNDARY

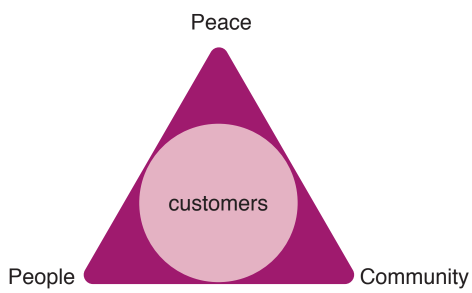
The annual ESG report contains information on significant economic, environmental and social impacts arising from the Group's operations in Hong Kong and in Mainland China for the year. These include operations conducted by AEON Stores (Hong Kong) Co., Limited and our two principal subsidiaries Guangdong AEON Teem Company Limited and AEON South China Company Limited. The Group operates a variety of retail outlets with different characteristics or focuses ("Store Portfolios"), ranged from large scale regional shopping outlets to small scale specialty stores, to cater for different lifestyle of our customers at different locations.

There was no change in the reporting boundaries of the ESG report in the year as compared with last year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR PHILOSOPHY

AEON has continuously worked to fulfill its mission as a retailer grounded in a basic philosophy of peace, people, and the community (the "AEON Principles").



Peace: AEON is a corporate group whose operations are dedicated to the pursuit of peace through prosperity

People: AEON is a corporate group that respects human dignity and values personal relationships

Community: AEON is a corporate group rooted in local community life and dedicated to making a continuing contribution to the community

On the basis of the AEON Principles, AEON practices its "Customer-First" philosophy with its everlasting innovative spirit.

AEON established the AEON Sustainability Principle in line with the AEON Principles as the fundamental policy that governs the environmental and social contribution activities that all AEON group companies should take part in.

AEON Sustainability Principle aims to realize a sustainable society with our stakeholders. With "realization of a low-carbon society", "conservation of biodiversity", "better use of resources" and "addressing social issues" as core principles, we will advance activities in pursuance of these principles from time to time.

ENVIRONMENTAL

With AEON's environmental policy, we strive to balance enriching lifestyles with environmental conservation by providing safe and comfortable stores, products and services to our customers. We also operate an environmental management system to implement measures, conduct periodical reviews, and promote continual improvements.

1. We will strive to reduce the emission of greenhouse gases in all of our business activities in order to realize a low-carbon society.

2. We will promote conservation activities and ascertain the benefits and impact of our business activities on natural ecosystems.

3. We will strive to implement resources conservation and resources recycling initiatives in order to use resources in a sustainable manner.

4. We will comply with legal requirements and with other requirements related to our environmental aspects, and strive to prevent pollution.

5. We will develop partnerships with many stakeholders, including our customers, and widen the reach of our initiatives.

Throughout the year, AEON has complied in material respects with the relevant standards, rules and regulations on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(a) Emissions

AEON identifies carbon dioxide emission as its material greenhouse gas emission. AEON's largest direct source of carbon dioxide emissions is from kitchens or workshops in our store operations which consume gas. In 2022, 502 tonnes of carbon dioxide was emitted. AEON will continue to introduce all-electric cooking system and kitchen equipment in stores to reduce greenhouse gas emissions from gas combustion as far as practicable.

AEON's indirect source of carbon dioxide emissions is from its electricity consumption in our store operations. In 2022, 114,998 tonnes of carbon dioxide was emitted.

Waste discharged from AEON's stores rarely if ever contains hazardous substances.

AEON generates food waste through its business and is also tied to waste produced by customers after the use of plastic bags and food containers. This is why we are working on various activities for the better use of resources as one of our key issues. AEON has started the collection of food waste generated from its business and collected by eco-friendly organization (designated resources-reutilizing business operator) for the recycling of these food wastes.

AEON works with recycling organizations which convert food waste to animal feed or transform food waste into electricity and compost. In 2022, 1,625 tonnes of food waste was collected for recycling.

AEON recycles waste cooking oil into biodiesel products. In 2022, 86.3 tonnes of waste oil was collected for recycling.

AEON does not set up any particular emission targets but will set up soon. We will take initiatives to reduce direct or indirect greenhouse gas emissions as far as practicable in its daily operations.

AEON does not set up any particular targets for the reduction of non-hazardous wastes but will set up soon. We will take initiatives to recycle wastes that produced in its daily operations which mentioned above.

Different emissions data reported above are stated in the total amount of their measuring units. As the Group is operating a variety of Store Portfolios, intensity data (e.g per store or per gross sales area) are not prepared because such indicators may not be meaningful.

(b) Use of resources

AEON consumes a large volume of energy, mainly in air-conditioning and lighting as well as freezer and refrigeration cabinets. For AEON, reducing carbon dioxide emissions from stores plays a key role in reducing emissions for the entire Group. Therefore, AEON is devoting efforts to reducing its carbon dioxide emission by curbing energy usage with the use of more efficient air conditioners, lighting, and refrigerator/freezer cases.

The Group's electricity and gas consumption in the year were 150,216,000 kWh and 2,150,000 kWh respectively. We are actively promoting measures such as converting store lighting to LED or use LED for new stores and improving energy conservation management as we strive to reduce energy consumption. We also adopt high-efficiency motors and compressors for refrigeration and take measures to minimize heat loss such as increase the proportion of closed-typed freezers.

The Group's water consumption in the year was 1.05 million cubic metres.

AEON does not set up any particular energy use efficiency targets but will set up soon. We will take initiatives to reduce energy consumption as far as practicable in its daily operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group does not have any issue in sourcing water that is fit for our operations and does not set up any particular water efficiency targets. We are actively working to raise water consumption efficiency by improving facility design and operational practices.

Packaging material is another source of resources consumed in our operations. In the year, the Group consumed packaging material used for finished products and for customers totaled 187,900 Kg. AEON encourages our customers to bring their own shopping bags to reduce shopping bags consumption. AEON also adopted bio-degradable materials for the production of its shopping bags and adopted recyclable materials for its packaging and wrapping materials.

Different use of resources data reported above are stated in the total amount of their measuring units. As the Group is operating a variety of Store Portfolios, intensity data (e.g per store or per gross sales area) are not prepared because such indicators may not be meaningful.

(c) The environment and natural resources and Climate change

AEON uses natural resources to conduct its business, such as agricultural, livestock, and fishery products as well as paper, pulp and timber. The products manufactured and sold by AEON are made possible by the bounty of nature. The problem of global warming has brought a large and negative impact to the global environment which may affect the supply of these natural resources.

AEON is working actively to preserve environments by promoting the sustainable use of resources, and other means, including but not limited to:

– AEON promotes the reduction of electricity use at stores by various initiatives to reduce greenhouse gas emissions which is generated from electricity;

– AEON promotes the procurement of sustainable products, e.g. sustainable fisheries, aquaculture products and agricultural products;

– AEON aims to minimize the use of non-renewable resources;

– AEON promotes AEON's tree planting activities and environmental protection activities in its stores.

SOCIAL

1. Employment and labour practices

AEON has been built by AEON people through their contributions and innovative efforts. The future history of AEON will also be written by AEON people. AEON people are the most important assets we have at AEON. AEON people contribute their talents to realize our "Customer-First" philosophy which is the core part of AEON Principles.

(a) Employment

One of the three basic AEON Principles is AEON is a corporate group that respects human dignity and values personal relationships. With this guiding principle, AEON implements its policies in all aspects in relation to AEON people.

Throughout the year, AEON has complied in material respects with the relevant standards, rules and regulations on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other benefits and welfare.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at 31 December 2022, the Group employed approximately 9,400 staff which can be grouped by:

Gender	Number of staff
Male	2,400
Female	7,000
Total	9,400

	Number of staff		
Employment type	**Male**	**Female**	**Total**
Full time executive	200	200	400
Full time supervisory	500	1,100	1,600
Full time general	800	2,900	3,600
Part timer	900	2,900	3,800
Total	2,400	7,000	9,400

Age group	Number of staff
between 18 to 35	3,700
between 36 to 50	4,300
>50	1,400
Total	9,400

Geographical region	Number of staff
Hong Kong	3,000
China (other than Hong Kong)	6,400
Total	9,400

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Average employee turnover rate in the year grouped by:

Gender	%
Male	6.2%
Female	5.0%
Total	5.3%

Age group	%
between 18 to 35	8.5%
between 36 to 50	3.1%
>50	3.6%
Total	5.3%

Geographical region	%
Hong Kong	5.1%
China (other than Hong Kong)	5.5%
Total	5.3%

(b) Health and safety

AEON works to enhance safety for facilities and fixtures used in its work places to prevent accidents. Meetings are organized at the stores and business office level in order to ensure the safety and health of employees and promote the creation of pleasant, comfortable conditions.

Throughout the year AEON has complied in material respects with the relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.

There was no work-related fatality case happened in each of the past three years including the reporting year.

In the reporting year, approximately 1,900 days sick leave were claimed by staff due to work injury.

General occupational health and safety measures training is provided to staff when staff join AEON. Specific trainings on occupational health and safety measures related to different job positions which require different skill sets will be provided to staff during on the job engagement. Occupational health and safety issues when happened will be reported to management according to internal guidelines with recommendations to prevent future case from happening. Any reported case will be shared with other staff to refresh their mindset on occupational health and safety.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(c) Development and training

AEON believes that the greatest form of welfare is education. This phrase embodies the thought that education, in addition to wages and benefits, is key to enriching the lives of its employees. Given this, we have created a wide range of training programs that support the growth of employees and their desire for advancement.

In AEON, we have a system for employees to meet twice a year with their supervisors to discuss and reflect on their work performance and work challenges, and to look ahead to their future aspirations. There are also regular assessments of individual work results and career achievements.

In AEON, various training and staff development programs are provided to employees:

i) AEON fundamental education

This is provided to all new join AEON people. Besides sharing AEON's basic philosophy and set of values, the education aims to get employees to master the corporate culture and basic skills as AEON people.

ii) Internal certification systems

AEON has established an array of internal certification systems for specific jobs, including but not limited to sushi master, meat master and fresh fish master etc.

iii) Group recruitment system

This system enables personnel to challenge the business and job position they aspire to without being restricted to the domain or company they belong to.

iv) Trainee system

AEON has established training program to university graduates of different disciplines in order to train the human resources with the ability to become future leaders of the business.

v) AEON CHINA business school

The AEON CHINA business school provides courses for personnel to learn the knowledge necessary for the jobs they aspire to. The system supports self-actualization of motivated personnel.

vi) Partnership training program with Tsinghua University

AEON Tsinghua University School of Social Science Social Development Research Centre was established with Tsinghua University with the goal of promoting industry-academia cooperation in human resource development and research in the field of social sciences.

This training program, which comprises unique curriculum on management strategy, marketing, IT and other fields that leverage the expertise of Tsinghua University, will be held every year for selected outstanding human resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

vii) AEON Code of Conduct training

AEON established the AEON Code of Conduct in 2003 in order to express the AEON basic principles in terms of a specific set of guidelines. The AEON Code of Conduct makes explicit to Group employees criteria for action, consideration and judgment, under the AEON basic principles, in order to serve customers. It is intended as a shared set of values for the AEON Group.

All employees of the AEON Group participate in general training once a year to review the AEON Code of Conduct. Reconfirming the necessity of corporate ethics helps create a shared set of values among employees.

The annual AEON Code of Conduct training is provided to all AEON people, and all AEON people must attend the training, irrespective of their gender or employee category.

Average training hours completed per employee in the year grouped by:

Gender	Hours
Male	2.3
Female	2.1

Employment Category	Hours
Full time executive	2.8
Full time supervisory	2.4
Full time general	2.3
Part timer	1.3

(d) Labour standards

AEON prohibits child labour or forced labour and this is the basic principles of our human resources policy. Such policy is enforced and reviewed by human resources department during the recruitment process.

AEON has complied in material respects with relevant standards, rules and regulations on preventing child or forced labour throughout the reporting period and we are not aware of any non-compliance case.

The Group follows AEON principle that respects human dignity and values personal relationships and has laid down internal rules and regulations to avoid child and forced labour with its enforcements through its Human Resources Departments.

If any illegal or non-compliance with internal rules and regulations case that related to child and forced labour is discovered, such employment will be terminated immediately. Staff involved will be subjected to disciplinary actions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Operating practices

(a) Supply chain management

AEON recognizes that our supply chain management plays a central role in the Group's overall business sustainability. AEON sustains strong relationships with our suppliers to deliver safe food and reliable products to meet our customers' needs.

Under our guiding AEON principles, we joint efforts with suppliers or their associates/agents located in Japan, Hong Kong, the mainland China and other countries sourcing goods to help AEON to achieve its objective of "Customer Satisfaction".

At 31 December 2022, the approximate number of suppliers of merchandise grouped by geographical region was:

Geographical region	No.
Hong Kong	1,100
China (other than Hong Kong)	800
Other countries	600
Total	2,500

The Group has set up departments responsible for reviewing suppliers' background to ensure suppliers can satisfied our internal rules and regulations related to product safety before suppliers and engaged.

The Group placed high emphasis and allocates resources in the selection of suppliers before engagement. The Group does not manage environmental and social risks along the supply chain except our direct suppliers.

The Group is working under AEON's basic principle to satisfy customers' needs. Customer preference and opinions are gathered, then analyzed for use in product improvement and new product development. In response to customers telling us what they want, AEON strives to source the product in demand, including environmentally preferable products, through our procurement network or by our private brand.

(b) Product responsibility

Our suppliers who sell their merchandise in our stores are required to assume full responsibility for their products' compliance with the relevant rules and regulations governing food and product safety, including but not limited to product safety, labeling and packaging. When there is doubt regarding potential safety or trust of a product, with the source of information either from related government departments, media or suppliers, we work with our business partners to promptly ascertain the nature of the concern and resolve the issue immediately.

Throughout the year AEON has complied in material respects with the relevant standards, rules and regulations on health and safety, advertising, labeling and privacy matters relating to products and services provided.

In the reporting year, the percentage of total products sold subject to recalls for safety and health reasons was less than 0.00003%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In the reporting year, approximately 2,000 complaints related to product and services were received. The Group expressed sincere apologies to all complainants for the product or services that cannot met their satisfactions. 54% of complaint cases were settled without compensation, 23% were settled by exchange for similar products or refund and the remaining 23% were settled by other means.

AEON recognizes that it is the responsibility of every AEON people or representative to help protect intellectual property rights. To avoid violations of intellectual property rights, all employees and representatives must ensure that appropriate authorization is obtained prior to selling related goods or using or reproducing any materials. If AEON receives notification of an alleged infringement, AEON will remove the alleged goods from sales floor or disable access to those materials immediately upon we have a reasonable, good faith belief that those goods or materials has been illegally distributed or copied.

In addition to those procedures mentioned above in respect of the engagement of suppliers to provide products that can fulfill relevant safety standards, AEON will remove any products from the sales floor immediately if AEON receives notification of any confirmed or suspected case of problematic goods that may affect the safety of customers. Customers who are not satisfied with those problematic goods purchased can request AEON for refund or exchange for other similar products.

AEON maintains administrative, technical, and physical safeguards designed to protect customer data. AEON uses these safeguards to protect against accidental, unlawful, or unauthorized destruction, loss, alteration, access, disclosure, or use of this information. AEON people should use proper care and diligence in handling this information. This information should not be kept longer than is necessary and required, and should be properly disposed in accordance with the applicable rules and regulations.

(c) Anti-corruption

AEON realized the importance of anti-corruption and has adopted policies and procedures to communicate with and provide training to our staff on anti-corruption. Anti-corruption forms part of the messages that AEON reconfirms with all employees, including Executive Directors, during the AEON Code of Conduct training held once a year.

AEON also requires our business partners to strictly comply with anti-corruption practices. All business partners need to sign acknowledgement letter of AEON's anti-corruption policies. Our statement of anti-corruption policies is placed in all open meeting areas to remind ourselves and our business partners of such practices.

Throughout the year AEON has complied in material respects with the relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.

There was one concluded legal case regarding corrupt practices brought against the Group or its employees in the reporting period.

In addition to those preventive measures that mentioned in the above paragraphs, AEON people who witnesses or knows any violation or misconduct, or faces any issue that may infringe the AEON code of conduct, can report the case to a designated helpline or website. The identity of the AEON people who report the case and the information reported will be kept strictly confidential. All cases reported to the helpline or website will be followed up by management and reported to the Audit Committee twice a year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Community

AEON gives back to local communities by improving community economic conditions and welfare through its business operations and contributing to a safer society. AEON is also providing myriad programs for supporting the growth of youth at each life stage, from infants up to university students.

AEON's focus areas of contribution includes, but not limited to, environmental protection, caring those people in needs in our community and educational programs. AEON launched among its community contribution programs:–

i) AEON Happy Yellow Receipt Campaign to link customers and charitable organizations. Customers participate in the campaign simply by taking the yellow receipts they receive when making purchase on every 11th of every month, and placing them in a box labeled with the name of an organization or a particular activity. AEON then contributes goods accordingly at a value of 1% of the total amount of the receipts.

   Beneficiaries of this program are charitable organizations serving the elderly, youngsters, disabled, under privileged groups and also organizations promoting environmental conservation and animal protection. In the year, AEON contributed approximately HK$1.7 million to various beneficiaries.

ii) The AEON Cheers Club provides hands-on opportunities for primary to secondary students to learn about the environment. Young people can participate in environmental activities with the support of store employees. In the year, approximately 470 man hours were spent on organizing AEON Cheers Club activities and other community contribution activities.

iii) The AEON scholarship program provides financial support to university students, leaders of the next generation. Contributions in the year amounted to approximately HK$350,000.

iv) AEON provides direct support to low-income families through food donation. In the year items valued HK$0.8 million were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. NAGASHIMA Takenori

Mr. Nagashima (aged 41) was appointed the Managing Director of the Company in March 2023. He joined the Company as the Administration General Manager in May 2019 and has become the Executive Director in charge of Administration and Corporate Finance of the Company in October 2019. He joined AEON Retail Co., Ltd. in September 2004. From 2011 to 2014, he was assigned to assume different positions related to various operations in AEON Co., Ltd.. In September 2014, he was appointed as the Administration General Manager of 永旺（湖北）商業有限公司, with responsibility of establishing its supporting team. Mr. Nagashima received his bachelor's degree from the International Cultural Exchange School of Fudan University.

Mr. HISANAGA Shinya

Mr. Hisanaga (aged 49) was appointed as the General Manager of the Buying Division of the Company in March 2020 and Executive Director of the Company in May 2020. He joined AEON Retail Co., Ltd. in April 1997. Since then, he was assigned to assume different positions in various business divisions related to business planning and coordination in AEON Retail Co., Ltd. group companies. Before he joined the Company, he was an executive officer of Home Coordy Business Division in AEON Retail Co., Ltd.. He became a director of Sunday Co., Ltd. and AEON Bike Co., Ltd. in May 2016 and became a director of R.O.U Co., Ltd. in March 2015. Mr. Hisanaga received his bachelor's degree in Commerce from the Hannan University.

NON-EXECUTIVE DIRECTORS

Mr. NAKAGAWA Isei

Mr. Nakagawa (aged 56) was appointed as Executive Director and the Managing Director of the Company in May 2019. In May 2021, he was re-designated from Executive Director to Non-executive Director, ceased to be the Managing Director and was appointed as the Chairman of the Board. He has become the President of AEON (China) Co., Ltd. since May 2021. Before he joined the Company, he was the managing director of Qingdao AEON Dongtai Co., Ltd. ("QADCL"). He joined AEON Co., Ltd. group in March 1990 and since then was assigned to assume different positions related to various operations in AEON Retail Co., Ltd. ("ARCL"). He became the chairman of Maxvalu Hokuriku Co., Ltd. in August 2010, an executive director of ARCL in March 2013, and the managing director of QADCL in February 2015. Mr. Nakagawa graduated from the Toyo University with a bachelor's degree in Business Administration.

Mr. FUKUDA Makoto

Mr. Fukuda (aged 48) was appointed as Non-executive Director in May 2021. He is the general manager of Finance Department of AEON Co., Ltd. ("AEON Co"), the ultimate holding company of the Company. Mr. Fukuda joined AEON Co in April 2001. Since then, he was assigned to assume different positions in Corporate Branding Department, Corporate Strategy Department, Corporate Secretarial Department and Finance Department of AEON Co. In March 2021, Mr. Fukuda was appointed the general manager of Finance Department of AEON Co. He was appointed the corporate auditor of AEON Financial Service Co., Ltd. in May 2022. Mr. Fukuda graduated from The University of Tokyo with a bachelor degree in Law and the Waseda University with a master degree in Business Administration.

Mr. INOHARA Hiroyuki

Mr. Inohara (aged 56) was appointed as Non-executive Director in March 2022. He is the vice-president of AEON (China) Co., Ltd. ("ACCL"). Mr. Inohara joined AEON Retail Co., Ltd. ("ARCL") in 1991. Since then, he was assigned to assume different positions in ARCL and in AEON Co., Ltd., the ultimate holding company of the Company. In 2011, he was appointed the general manager of business development of ACCL. In 2015, he was appointed the managing director of AEON South China Co., Ltd. ("ASC"), a subsidiary of the Company, and the managing director of both Guangdong AEON Teem Co., Ltd. ("GDA"), a subsidiary of the Company, and ASC from 2017. He was appointed the vice-president of ACCL since 2021 and is in charge of business development and construction. Mr. Inohara graduated from the Faculty of Economics, Doshisha University and also the Department of Knowledge Science Hokuriku Advanced Institute of Science and Technology with a master degree.

Mr. Inohara is also a director of ACCL, Qingdao AEON Dongtai Co., Ltd., 永旺（湖北）商業有限公司, 永旺華東（蘇州）商業有限公司, GDA, ASC, Beijing AEON Co., Ltd. and 永旺夢樂城（中國）投資有限公司.

SENIOR MANAGEMENT PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOW Chi Tong

Mr. Chow (aged 63) was appointed as Independent Non-executive Director in January 2016. He is an accountant in practice as a partner of Ting Ho Kwan & Chan CPA Limited, Certified Public Accountants (Practising) and member of 2021 HKSAR Election Committee. Mr. Chow has over 36 years of experience in both accounting and auditing. He is a fellow member of Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales.

Mr. MIZUNO Hideto

Mr. Mizuno (aged 49) was appointed as Independent Non-executive Director in August 2018. He has been the vice chairman of Mizuno Sports Promotional Foundation, a non-profit organization, since June 2016. He was also the wholesale director of Timberland brand of VF Japan Corporation from June 2017 to February 2018. Before June 2017, Mr. Mizuno was an executive director of Mizuno Corporation, a company listed on the Tokyo Stock Exchange. During his over ten years' services in Mizuno Corporation, he was in charge of the Global Brand Development, New Business Development, National Accounts Sales and Nagoya Sales Branch Office. He was also the vice president of Mizuno USA in charge of Corporate Planning during the period from July 2005 to March 2009. Mr. Mizuno holds a master degree in Business Architect from the Kanazawa Institute of Technology Japan, a bachelor's degree in Chemistry from the Carthage College USA and a bachelor's degree in Economics from the Keio University Japan.

Ms. SHUM Wing Ting

Ms. Shum (aged 34) was appointed as Independent Non-executive Director in December 2022. She is currently a practicing solicitor and civil celebrant of marriage in Hong Kong. She has experience in general legal practice with specialization in civil litigation and commercial law. Ms. Shum graduated from The Chinese University of Hong Kong with a bachelor degree in laws (LL.B.) in 2011 and completed her postgraduate certificate in laws in 2012. She also obtained her Master of laws Degree from the University of Hong Kong in 2019. Ms. Shum is currently a member of the Law Society of Hong Kong and an accredited general mediator of Hong Kong Mediation Accreditation Association Limited and the Law Society of Hong Kong.

Ms. Shum completed her traineeship in LCP, Solicitors and Notaries in 2014, was then admitted as a solicitor of Hong Kong and has become an assistant solicitor in LCP, Solicitors and Notaries in the same year. Ms. Shum was an independent non-executive director, member of the audit committee, remuneration committee and nomination committee of Fullwealth Construction Holdings Co., Ltd. for the period from 8 October 2018 to 14 Jan 2021, which is listed on the main board of the Stock Exchange with stock code 1034.

SENIOR MANAGEMENT

Mr. YEUNG Tze Shing

Mr. Yeung (aged 59) is the General Manager of Corporate Finance Division of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the HKICPA. He joined the Company in 1995. Mr. Yeung graduated from the Chinese University of Hong Kong with a bachelor's degree in Science.

Mr. LI Yat Ming

Mr. Li (aged 57) is the Assistant General Manager of Operations cum Kornhill Store Manager of the Company. He joined the Company in May 1994. Since then, he was assigned to assume different management positions related to store operations in the Company.

CORPORATE GOVERNANCE REPORT

Ever since its incorporation, AEON has remained customer-focused and has adhered to the conviction that unstinting contribution to customers and local communities and realization of employee happiness are the eternal mission of the retail industry.

The pace and degree of changes to the business environment will continue to increase. To respond to new customer and community expectations towards companies and the increased importance of responsibilities that companies are expected to fulfill, companies must not only pursue profits, but also contribute more than ever to the realization of prosperity and a sense of well-being for communities as a whole from a long-term, sustained perspective as caring corporate citizens.

On the basis of this recognition, we have set forth our policy on Corporate Governance in order to create long-term sustainable growth of AEON for the benefits of its shareholders and delivering long-term values to all stakeholders.

CORPORATE GOVERNANCE PRACTICE

The Board of Directors (the "Board") of the Company is committed to maintaining high standard of corporate governance practices to promote the interests of the shareholders and enhance the shareholders' value. The Board reviews the corporate governance practices and procedures regularly with reference to our long-term corporate governance goal and the latest development in corporate governance practices so as to ensure the Group is under the leadership of an effective Board and to meet interested parties' expectation and relevant regulatory requirements.

The Company has adopted the code provisions contained in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance practice.

In the opinion of the Directors, the Company has complied throughout the year ended 31 December 2022 with the code provisions of the Code in force during the year 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 of the Listing Rules.

BOARD OF DIRECTORS

Board Composition

As at the date of this annual report, the Board comprises a total of 8 Directors, being 2 Executive Directors, 3 Non-executive Directors and 3 Independent Non-executive Directors. The number of Independent Non-executive Directors represents one-third of the Board as required by Rule 3.10A of the Listing Rules. The list of the Directors and their biographies are set out on pages 20 to 21 of this annual report.

The Board members have no financial, business, family or other material/relevant relationship with each other.

CORPORATE GOVERNANCE REPORT

Role of the Board

The Board is responsible for the leadership and control of the Company, oversees the Group's businesses, strategic decisions and performance, and reserves the key matters such as the declaration of interim dividend, recommendation of final dividend or other distributions for the approval of the Board. The Board has established Board Committees and has delegated to these Board Committees various authorities and responsibilities as set out in their respective terms of reference. The Board has also delegated the management functions and day-to-day operating responsibilities to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director ("MD").

Board Process

The Board has scheduled at least four regular meetings a year and meets as and when required. During the year, the Board held nine regular meetings and one non-regular meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. For all regular Board meetings held in the year, at least 14 days' notice was given to all Directors. All Board meetings were duly convened and held in the way prescribed by the Articles of Association of the Company. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors to enable them to make informed decisions.

Board and committee approvals are also given by circulation of resolutions in writing pursuant to the Articles of Association of the Company on urgent matters which require decision in a tight timeframe and hence convening a Board or committee meeting is difficult or not practicable. In the case where a resolution in writing is circulated, sufficient information and explanatory materials will also be provided to the Directors and the members of the relevant committees at the same time.

In addition to regular Board meetings, the Chairman of the Board met with the Independent Non-executive Directors without the presence of the other Executive and Non-executive Directors.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and committees respectively at the next meetings. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

All Directors including Independent Non-executive Directors are welcome to give input on all resolutions put forward to the Board and sufficient time will be allocated for discussions in Board meetings. The Board considered that such mechanism is effectively implemented throughout the year to enable independent view available to the Board.

The Directors are entitled, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

CORPORATE GOVERNANCE REPORT

Attendance at Board Meetings

Directors' attendance at Board meetings during the year are set out as follows:

	Directors	Number of attendance
Executive Directors	Isao Sugawara *(MD)*	9/9
	Chak Kam Yuen (Note 1)	2/2
	Takenori Nagashima	9/9
	Shinya Hisanaga	9/9
Non-executive Directors	Isei Nakagawa *(Chairman)*	9/9
	Yuki Habu (Note 1)	2/2
	Makoto Fukuda	9/9
	Hiroyuki Inohara (Note 3)	7/7
Independent Non-executive Directors	Chan Yi Jen Candi Anna (Note 1)	2/2
	Chow Chi Tong	8/9
	Hideto Mizuno	9/9
	Law Chi Yan Joyce (Note 2)	8/8
	Shum Wing Ting (Note 4)	N/A

Notes:

1. Mr. Chak Kam Yuen, Ms. Yuki Habu and Ms. Chan Yi Jen Candi Anna retired with effect from 30 May 2022 and there were 2 Board meetings held before their retirement.

2. Ms. Law Chi Yan Joyce was appointed as an Independent Non-executive Director on 28 January 2022 and there were 8 Board meetings held after her appointment.

3. Mr. Hiroyuki Inohara was appointed as a Non-executive Director on 25 March 2022 and there were 7 Board meetings held after his appointment.

4. Ms. Shum Wing Ting was appointed as an Independent Non-executive Director on 23 December 2022 and there was no Board meeting held after her appointment.

Appointment and re-election of Directors

The Company has not fixed the terms of appointment for all Directors but they are subject to retirement and being eligible, offer themselves for re-election at each annual general meeting of the Company.

The Board may at any time appoint any person as a Director either to fill a vacancy or as an addition to the existing Board. Newly appointed Directors hold office until the next following annual general meeting of the Company and are eligible for re-election.

The Company has adopted a nomination policy (the "Nomination Policy") setting out the key selection criteria and principles to be used by the Company in making recommendations on the appointment or re-appointment of Directors and succession planning for Directors to the Board to ensure that the Board has a balance of skill, knowledge, experience and diversity of perspectives appropriate to the requirements of the Company's business.

CORPORATE GOVERNANCE REPORT

Attendance at General Meetings

The attendance of the Directors at the Annual General Meeting ("AGM") and Extraordinary General Meeting ("EGM") held on 30 May 2022 and 24 November 2022 respectively is as follows:

		Number of attendance	
	Directors	**AGM**	**EGM**
Executive Directors	Isao Sugawara *(MD)*	1/1	1/1
	Chak Kam Yuen (Note 2)	1/1	N/A
	Takenori Nagashima	1/1	1/1
	Shinya Hisanaga	1/1	1/1
Non-executive Directors	Isei Nakagawa *(Chairman)*	1/1	1/1
	Yuki Habu (Note 2)	1/1	N/A
	Makoto Fukuda	1/1	1/1
	Hiroyuki Inohara	1/1	1/1
Independent Non-executive Directors	Chan Yi Jen Candi Anna (Note 2)	1/1	N/A
	Chow Chi Tong	1/1	1/1
	Hideto Mizuno	1/1	1/1
	Law Chi Yan Joyce	1/1	1/1
	Shum Wing Ting (Note 3)	N/A	N/A

Notes:

1. The Directors attended AGM and EGM either in person or by video conference.

2. Mr. Chak Kam Yuen, Ms. Yuki Habu and Ms. Chan Yi Jen Candi Anna retired after the conclusion of AGM.

3. Ms. Shum Wing Ting was appointed as an Independent Non-executive Director on 23 December 2022.

Independence of Independent Non-executive Directors

The Company has received annual confirmations of independence from all Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules and considers that all Independent Non-executive Directors are independent. The Nomination Committee has assessed the independence of all the Independent Non-executive Directors on an annual basis.

Directors' Induction and Continuous Professional Development

The newly appointed Directors were given an induction after their appointment so as to ensure that they had appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business performance of the Group to the Directors. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirement to ensure compliance and upkeep of good corporate governance practices.

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. The Company has devised a training record in order to assist the Directors to record the training they have undertaken and they are asked to submit a signed training record to the Company on annual basis.

CORPORATE GOVERNANCE REPORT

The Company has also arranged in-house trainings for Directors in the form of seminar during the year. The attendance of the Directors to the in-house and/or external training seminars throughout the year according to the records provided by the Directors is as follows:

	Directors	Directors' participation in trainings
Executive Directors	Isao Sugawara *(MD)*	✓
	Chak Kam Yuen	N/A
	Takenori Nagashima	✓
	Shinya Hisanaga	✓
Non-executive Directors	Isei Nakagawa *(Chairman)*	✓
	Yuki Habu	N/A
	Makoto Fukuda	✓
	Hiroyuki Inohara	✓
Independent Non-executive Directors	Chan Yi Jen Candi Anna	N/A
	Chow Chi Tong	✓
	Hideto Mizuno	✓
	Law Chi Yan Joyce	✓
	Shum Wing Ting	✓

CHAIRMAN AND CHIEF EXECUTIVE

Under code provision C.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Board considered that the duties of the MD were no difference from that required of a chief executive stipulated under the code provision C.2.1 of the Code. The management would regard that the term of MD will have the same meaning as the chief executive of the Company.

The role of Chairman of the Board is responsible for the leadership and effective running of the Board, and ensuring that all significant and key issues arising at board meetings are properly briefed and discussed and where required, resolved by the Board timely and constructively. The MD is delegated with the authority and responsibility to run the Group's business and day-to-day operation, and implement the Group's strategy with respect to the achievement of its business objectives with the assistance of the Executive Directors and senior management.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. In assessing the Board's composition, the Nomination Committee takes into account various aspects set out in the Board Diversity Policy.

CORPORATE GOVERNANCE REPORT

In the selection, appointment and re-appointment of Directors, the Nomination Committee will consider, evaluate and select the candidate(s) based on meritocracy and with reference to nomination criteria set out in the Nomination Policy, which include:

1. age, skills, knowledge, experience, expertise, professional and educational qualifications, background and other personal qualities of the candidate;

2. effect on the Board's composition and diversity;

3. commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organizations, and other executive appointments or significant commitments will be considered;

4. potential/actual conflicts of interest that may arise if the candidate is selected;

5. independence of the candidate;

6. in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served the Company; and

7. other factors considered to be relevant by the Nomination Committee on a case by case basis.

The nomination procedures for selection, appointment and re-appointment of a Director are summarized as following:

(1) identifies or selects candidate(s) recommended to the Nomination Committee, with or without assistance from external agencies or the Company, pursuant to the nomination criteria set out in the above paragraph;

(2) may use any process it deems appropriate to evaluate the candidate(s), which may include personal interviews, background checks, presentations or written submissions by the candidate(s) and third party references;

(3) holds meeting(s) to consider and approve the matter or make decisions by written resolutions;

(4) provides to the Board with all the information required including information set out in Rule 13.51(2) of the Listing Rules in relation to the candidate(s);

(5) makes recommendation to the Board including the terms and conditions of the appointment;

(6) the Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee;

(7) all appointments of directors should be confirmed by a letter of appointment or director service agreement setting out the key terms and conditions of the appointment of the directors; and

(8) pursuant to Rule 13.74 of the Listing Rules, where shareholders are required to vote on electing or re-electing a director or directors, the circular accompanying the notice of the relevant general meeting should contain all the information of the candidate(s) required under Rule 13.51(2) of the Listing Rules.

During the year, the Nomination Committee reviewed and considered that the following key features or mechanisms under the Company's Board and governance structure are effective in ensuring that independent views and input are provided to the Board.

CORPORATE GOVERNANCE REPORT

Composition of the Board and Board Committees	The Board endeavours to ensure the appointment of at least three independent non-executive directors ("INED(s)") and at least one-third of its members being INEDs (or such higher threshold as may be required by the Listing Rules from time to time). Apart from complying with the requirements prescribed by the Listing Rules as to the composition of certain Board committees, INEDs will be appointed to other Board committees as far as practicable to ensure independent views are available.
Independence Assessment	The Nomination Committee must strictly adhere to the Nomination Policy and the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of INEDs. Each INED is also required to inform the Company as soon as practicable if there is any change in his/her own personal particulars that may materially affect his/her independence. The Nomination Committee is mandated to assess annually the independence of all INEDs by reference to the independence criteria as set out in the Listing Rules to ensure that they can continually exercise independent judgement.
INEDs' tenure	The Company sets a maximum tenure of nine consecutive years for INEDs to be eligible for nomination by the Board to stand for re-election by shareholders.
Compensation	No equity-based remuneration (e.g. share options or grants) with performance-related elements will be granted to INEDs as this may lead to bias in their decision-making and compromise their objectivity and independence.
Conflict management	INEDs (as other directors) shall not vote or be counted in the quorum on any Board resolution approving any contract or arrangement in which such Director or any of his/her close associates has a material interest.
Professional advice	INEDs (as other directors) are entitled to seek further information and documentation from the management on the matters to be discussed at Board meetings. They can also seek assistance from the Company's company secretary and, where necessary, independent advice from external professional advisers at the Company's expense.
Review of mechanism implementation	The Board shall, or may designate a Board committee to, make an annual review of the implementation and effectiveness of this policy.

CORPORATE GOVERNANCE REPORT

The Nomination Committee's authorities and duties are set out in written terms of reference. The terms of reference of the Nomination Committee, the Board Diversity Policy (containing the measurable objectives on the Board diversity) and the Nomination Policy are available on the websites of the Stock Exchange and the Company.

Members of the Nomination Committee and the attendance of each member during the year are set out as follows:

	Directors	Number of attendance
Non-executive Director	Isei Nakagawa *(Chairman)*	4/4
Independent Non-executive Directors	Chan Yi Jen Candi Anna (Note 1)	2/2
	Chow Chi Tong	4/4
	Hideto Mizuno	4/4
	Law Chi Yan Joyce (Note 2)	3/3
	Shum Wing Ting (Note 3)	N/A

Notes

1. Ms. Chan Yi Jen Candi Anna ceased to be a member of the Nomination Committee on 30 May 2022 and there were two Nomination Committee meetings held before 30 May 2022.

2. Ms. Law Chi Yan Joyce was appointed a member of the Nomination Committee on 28 January 2022 and there were three Nomination Committee meetings held after 28 January 2022.

3. Ms. Shum Wing Ting was appointed a member of the Nomination Committee on 23 December 2022 and there was no Nomination Committee meeting held after 23 December 2022.

During 2022, the Nomination Committee performed the following duties:

– reviewed the size, structure and composition of the Board;

– reviewed individuals suitably qualified to become members of the Board and Board committees on merit and against objective criteria and with due regard for the benefits of diversity on the Board and select or make recommendations to the Board on the individuals nominated for directorship;

– reviewed the time commitment of Directors for performing their responsibilities and their contribution to the Board diversity;

– assessed the independence of Independent Non-executive Directors;

– recommended the Board on the re-election of retiring Directors at the Annual General Meeting for 2022, and appointment/re-appointment of Committee Chairmen and Committee members.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management. It will also make recommendations to the Board on the remuneration packages of all Directors and senior management. The Committee's authorities and duties are set out in written terms of reference. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Our remuneration policy aims to maintain an appropriate balance between business performance and long-term sustainable growth of the Group. In particular, no individual Board member or any of his or her associates should participate in deciding his or her own remuneration. The emolument of the Directors is determined by the Board with reference to the Remuneration Committee's recommendation, the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The model of the Remuneration Committee described in code provision E.1.2 (c)(ii) of the CG Code has been adopted by the Company.

Members of the Remuneration Committee and the attendance of each member during the year are set out as follows:

	Directors	Number of attendance
Non-executive Director	Isei Nakagawa	4/4
Independent Non-executive Directors	Chan Yi Jen Candi Anna (Note 1)	2/2
	Chow Chi Tong	4/4
	Hideto Mizuno	4/4
	Law Chi Yan Joyce (Note 2)	3/3
	Shum Wing Ting *(Chairman)* (Note 3)	N/A

Notes

1. Ms. Chan Yi Jen Candi Anna ceased to be the Chairman and a member of the Remuneration Committee on 30 May 2022 and there were two Remuneration Committee meetings held before 30 May 2022.

2. Ms. Law Chi Yan Joyce was appointed a member and the Chairman of the Remuneration Committee on 28 January 2022 and 30 May 2022 respectively and there were three Remuneration Committee meetings held after 28 January 2022.

3. Ms. Shum Wing Ting was appointed a member of the Remuneration Committee on 23 December 2022 and there was no Remuneration Committee meeting held after 23 December 2022. She was appointed the Chairman of the Remuneration Committee on 1 January 2023.

During 2022, the Remuneration Committee performed the following duties:

– reviewed the remuneration of all existing Directors and senior management and recommended the Board to approve their remuneration; and

– reviewed and made recommendations to the Board on the proposed remuneration of the retired Director and new Director.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2022 are disclosed in the notes 14 and 15 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee is responsible for ensuring the objectivity and credibility of the Group's financial reporting. The Committee's authority and duties are set out in written terms of reference. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee reviews the Group's financial statements, internal financial reports, risk management and internal control systems. The Audit Committee meets at least twice a year with management and external auditors and reviews their reports.

Members of the Audit Committee and the attendance of each member during the year are set out as follows:

	Directors	**Number of attendance**
Non-executive Director	Isei Nakagawa	6/6
Independent Non-executive Directors	Chow Chi Tong *(Chairman)*	6/6
	Chan Yi Jen Candi Anna (Note 1)	2/2
	Hideto Mizuno	6/6
	Law Chi Yan Joyce (Note 2)	5/5
	Shum Wing Ting (Note 3)	N/A

Notes

1. Ms. Chan Yi Jen Candi Anna ceased to be a member of the Audit Committee on 30 May 2022 and there were two Audit Committee meetings held before 30 May 2022.

2. Ms. Law Chi Yan Joyce was appointed a member of the Audit Committee on 28 January 2022 and there were five Audit Committee meetings held after 28 January 2022.

3. Ms. Shum Wing Ting was appointed a member of the Audit Committee on 23 December 2022 and there was no Audit Committee meeting held after 23 December 2022.

During 2022, the Audit Committee performed the following duties:

– discussed with management regarding the proposed change of the Company's auditor and made recommendation to the Board for approval;

– reviewed the audited financial statements for the year ended 31 December 2021 with a recommendation to the Board for approval;

– reviewed the un-audited financial statements for the six months ended 30 June 2022 with a recommendation to the Board for approval;

– reviewed the effectiveness of and various reports on risk management and internal control system covering financial, operational, procedural compliance and risk management functions;

– met the external auditors and reviewed their reports (including review of audit schedule, audit planning, management letters and management's response) to the committee in respect of the annual results and interim results of the Company;

CORPORATE GOVERNANCE REPORT

- met with the external auditors (without the present of executive Directors and management) to discuss issues arising from the audit of annual accounts and review of interim accounts;
- reviewed and approved the engagement and remuneration of the external auditors in respect of audit and non-audit services; and
- reviewed and was satisfied with the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

All members of the Audit Committee possess in-depth experience in their own profession. At least one of the committee members possesses appropriate professional qualifications in finance and accounting and meets the requirements of Rule 3.21 of the Listing Rules. No member of the Audit Committee is a former partner of the existing auditing firm engaged by the Company during two years after he or she ceases to be a partner of the auditing firm.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties as set out below:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

The Board has reviewed the corporate governance practices for the year under review and is satisfied with the effectiveness of the corporate governance practices, including the adequacy of the Group's resources, staff qualifications and experience, training programs and budget relating to its ESG performance and reporting.

COMPANY SECRETARY

The Company's secretarial functions are outsourced to an external service provider. Mr. Yeung Tze Shing, General Manager of Corporate Finance Division of the Company, is the primary corporate contact person at the Company with the external service provider.

According to Rule 3.29 of the Listing Rules, Mr. Chan Kwong Leung Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2022.

DIRECTORS' SECURITIES TRANSACTIONS

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.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the year ended 31 December 2022, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The responsibilities of the Company's auditor, KPMG, are stated in the "Independent Auditor's Report" on pages 53 to 57 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and conducted interim and annual review of the effectiveness of such systems through the Audit Committee. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, procedural compliance, risk management and internal control functions.

The Group has adopted "Risk Control Self-Assessment Matrix" in terms of likelihood and impact with a view to assess the level of risks faced by the Group. The line management identifies and prioritizes the risk, and top management reviews and assesses if the risks are addressed and prioritized with reference to the Group's objectives. The two tier management are put together to determine the Group's key risk areas.

The Risk Control Self-Assessment Matrix focuses on the following 10 categories of corporate risk factors:

A. Transaction and Legal Matters
B. Society and Economy
C. Natural Disaster
D. Politics
E. Technology
F. Business and Corporate Governance
    F1. Finance
    F2. Product and Service
    F3. Employment
    F4. Information Security
G. Environment
H. Health and Safety
I. Facility and Equipment
J. ESG

During the year, each of the Group companies has performed self-assessment of all risk areas presented in the "Risk Control Self-Assessment Matrix" with reference to the impact and likelihood of risks, the changes since the last annual review if any, to prioritize risks and identify key risk issues that require its further attention. Risk countermeasures had been set up for monitoring the identified key risk areas. The business units continuously manage and monitor the high priority risk areas of the Group. The assessment results were reviewed by the Audit Committee and the Board.

CORPORATE GOVERNANCE REPORT

The Group's internal audit teams carried out internal audit functions of the Group to assess the risk, efficiency and effectiveness of the overall risk management and internal control systems. The Group's internal audit teams also regularly performs review of the business processes and activities of the internal control systems and report the review results to management and the Audit Committee twice a year. Each of the Group companies has allocated adequate resources, staff qualifications and experience in discharging the duties related to the Group's accounting, internal audit and financial reporting functions.

As part of the Group's internal control systems, Connected Party Transaction Panel has been set up to assist the Directors to review and monitor the existing and proposed connected transactions of the Group. Regular Panel meetings were held nearly every alternate week to review and monitor the existing and proposed connected transactions.

In relation to the handling of inside information in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Executive Directors and the senior management team will hold meetings to discuss and ascertain whether the relevant information constitutes inside information of the Group and are responsible for the dissemination of those inside information, if any.

The Board has reviewed the effectiveness of the risk management and internal control systems and considered such systems are effective and adequate.

The Group has established (i) a whistleblowing policy and system and (ii) policies and procedures to promote and support anti-corruption, details of which can be found on page 18 of this annual report. Cases reported under the whistleblowing system will be timely dealt with by management and reported the results to the Audit Committee twice a year.

AUDITOR'S REMUNERATION AND AUDITOR RELATED MATTERS

During the year under review, the remuneration paid and payable to the Company's auditor, KPMG, is set out as follows:

Services rendered	**Fees paid/payable** HK$'000
Audit services – annual audit	5,609
Non-audit services:	
Taxation services	684
Other services	644
	6,937

CORPORATE GOVERNANCE REPORT

DIVERSITY

The Company recognizes and embraces the benefits of having a diverse Board and believes that Board diversity is an important element to enhance the quality of its performance and maintain a sustainable development in long run. In this regard, the Board has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board. Board diversity is achieved through consideration of a number of factors and measurable objectives as set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional expertise, skills, knowledge and length of service. Given the nature and business objectives of the Company, the Board has a balance of skill, experience and diversity perspectives appropriate for the requirements of the business of the Company.

The Board has set out the measurable objectives on the Board diversity as its Diversity Policy and forms part of the terms of reference of the Nomination Committee. The list of measurable objectives is only an indication of factors relevant to the Nomination Committee's business and shall not be regarded as conclusive nor exhaustive in nature. Where appropriate, the Nomination Committee may take into account and/or further adopt and/or weight against one another such factor(s) relevant to the business to be transacted.

1.	Age	:	18 or over
2.	Gender	:	Welcome both genders with no preference for any particular proportion. Diversity is not considered to be achieved for a single gender board.
3.	Professional qualification	:	At least one Independent Non-executive Director shall possesses appropriate professional qualifications in finance and accounting and meets the requirements of rule 3.10 of the Listing Rules.
4.	Composition	:	One third of the Board or minimum three members shall be Independent Non-executive Directors to meet the requirements of rules 3.10 & 3.10A of the Listing Rules.
5.	Service period	:	Independent Non-executive Directors' tenure (as at the date of re-appointment) could be relevant to the determination of a non-executive directors' independence. Re-appointment of independent non-executive director serving more than 9 years should be in full compliance with the Listing Rules requirements.
6.	Other experience	:	Knowledge and experience which may contribute to the business of the Company.
7.	Any other relevant factors		

The Company has complied throughout the year ended 31 December 2022 with the gender diversity requirement under the code provisions of the Code in force during the year and considered it has implemented the board diversity policy effectively in the year. The Company will identify or select candidate(s) recommended to the Nomination Committee, with or without assistance from external agencies, pursuant to the nomination criteria set out in the above paragraph as when necessary.

The gender ratio in the workforce are provided in the Environmental, Social and Governance Report on pages 9 to 19 of this annual report and the list of the senior management are set out on pages 20 to 21 of this annual report. The Company has not set up any measurable objectives for achieving gender diversity across the workforce as it is less relevant in practicing its "Customer-First" philosophy.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a General Meeting by Shareholders

General meeting may be convened by the Directors on requisition of shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of the Company pursuant to sections 566 to 568 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) (the "Companies Ordinance"). The objects of the meeting must be stated in the requisition which must be signed by the requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening a general meeting.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries to the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

The Company Secretary
AEON Stores (Hong Kong) Co., Limited
Units 07-11, 26/F, CDW Building
388 Castle Peak Road, Tsuen Wan
New Territories, Hong Kong
Email: cs@aeonstores.com.hk
Tel: (852) 2565 3600
Fax: (852) 2563 8654

Putting Forward Proposals at the General Meetings

Pursuant to section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders having a right to vote on the resolution at the annual general meeting to which requests relate; or at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate, may make requisition in writing for proposing resolution or business to be dealt with at the annual general meeting. Shareholders should follow the requirements and procedures as set out in section 615 of the Companies Ordinance for putting forward a proposal at an annual general meeting.

If a shareholder of the Company intends to propose a person other than a Director of the Company for election as a Director of the Company at any general meeting, the shareholder shall follow the "Procedures for Nominating Directors for Election from Shareholders", which can be found on the website of the Company.

INVESTOR RELATIONS

Constitutional documents

The Company has adopted the new Articles of Association after approved by its shareholders at the annual general meeting held on 30 May 2022. The new Articles of Association of the Company is available on the websites of the Stock Exchange and the Company.

Shareholders' communication policy

The Company has set up a Shareholder Communication Policy which is available on the website of the Company under the Corporate Governance section. Shareholders may also send enquiries to the Company as stated in the above paragraph.

The Director in charge of Administration, leading an internal working group, reviewed the implementation of the policy from time to time and considered such policy is effective and adequate.

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are engaged in the operation of retail stores.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on page 4 and in the Management Discussion and Analysis on pages 5 to 8 of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Chairman's Statement on page 4 and in the Management Discussion and Analysis on pages 5 to 8 and in the Corporate Governance Report under the section headed "Risk Management and Internal Controls" on page 33 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in notes 40 and 41 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on page 3 of this annual report, in the Management Discussion and Analysis on pages 5 to 8 and in notes 5 and 6 to the consolidated financial statements. In addition, discussions on the Group's environmental policies and performances, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 9 to 19 of this annual report.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2022 are set out in note 43 to the consolidated financial statements.

SHARE CAPITAL

There was no movement in the share capital of the Company during the year ended 31 December 2022.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 58 to 59 of this annual report.

An interim dividend of 3.0 HK cents per share amounting to HK$7,800,000 was paid to the shareholders during the year. The Board has recommended the payment of a final dividend of 2.0 HK cents per share amounting to HK$5,200,000 to the shareholders on the register of members on 9 June 2023. Subject to the shareholders' approval at the forthcoming annual general meeting, the final dividend will be paid on or before 28 June 2023.

FIXED ASSETS

Details of the movements in the property, plant and equipment, right-of-use assets and investment properties of the Group during the year ended 31 December 2022 are set out in note 18 to note 21 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2022 were the retained profits of HK$301,344,000 (2021: HK$437,638,000).

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

During the year, the Company has not entered into any equity-linked agreements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. NAGASHIMA Takenori *(Managing Director)*	Appointed Managing Director on 28 March 2023
Mr. HISANAGA Shinya	
Mr. CHAK Kam Yuen	Retired on 30 May 2022
Mr. SUGAWARA Isao	Resigned on 28 March 2023

Non-executive Directors

Mr. NAKAGAWA Isei *(Chairman)*	
Mr. FUKUDA Makoto	
Mr. INOHARA Hiroyuki	Appointed on 25 March 2022
Ms. HABU Yuki	Retired on 30 May 2022

Independent Non-executive Directors

Mr. CHOW Chi Tong	
Mr. MIZUNO Hideto	
Ms. SHUM Wing Ting	Appointed on 23 December 2022
Ms. CHAN Yi Jen Candi Anna	Retired on 30 May 2022
Ms. LAW Chi Yan Joyce	Appointed on 28 January 2022 and resigned on 1 January 2023

In accordance with Articles 88 and 104 of the Company's Articles of Association, all Directors shall retire from office at the forthcoming annual general meeting and offer themselves for re-election.

The term of office for the Directors is the period up to their retirement in accordance with the above Articles.

The directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report were:

CHAK Kam Yuen, Isei NAKAGAWA, Takenori NAGASHIMA, Isao SUGAWARA, Shinya HISANAGA, CHEN Yin Feng, Kenji TOMARI, Hiroyuki INOHARA, SHI Qiu Hua, WANG Jian Heng, Minoru FUKADA, YANG Guo Dong, Masahiko KAKITSUBATA and Tomohiko KUKUTSU.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

Save for Directors' service contracts and contract of service with persons engaged in the full time employment of the Company, no contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisting during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2022, the interests of the Directors and chief executive of the Company in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) The Company

Directors	Number of ordinary shares held as personal interests	Approximate percentage of interests
NAKAGAWA Isei	15,000	0.00577%
SUGAWARA Isao	10,000	0.00385%
NAGASHIMA Takenori	2,000	0.00077%
HISANAGA Shinya	30,000	0.01154%

(B) AEON Co., Ltd., the Company's Ultimate Holding Company

Directors	Number of shares held as personal interests (Note)	Approximate percentage of interests
NAKAGAWA Isei	2,400	0.00028%
HISANAGA Shinya	2,030	0.00023%
FUKUDA Makoto	1,000	0.00011%

Note: The shareholding information above is confirmed by the respective Directors.

Other than as disclosed above, at 31 December 2022, neither the Directors nor the chief executive of the Company had any interests or short positions in any shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the heading "Related Party Transactions" as set out in note 39 to the consolidated financial statements and those connected transactions disclosed herein below, there were no other transactions, arrangements or contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any of its fellow subsidiaries was a party and in which a Director of the Company or its connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INDEMNITIES

Pursuant to the Company's Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company discloses the following continuing connected transactions and connected transaction incurred during the year. More details of each of the transactions reported could be referred to in the announcements related to each transaction.

(a) Continuing Connected Transactions

(i) On 9 June 2010, the subsidiary of the Company, Guangdong AEON Teem Co., Ltd. ("GDA") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") entered into the Supplemental Tenancy Agreement to extend the lease until 30 June 2025. The entering into the Supplemental Tenancy Agreement constitutes continuing connected transactions of the Company. Pursuant to the Supplemental Tenancy Agreement, GDA pays rents, management fees, utility expenses and usage charges and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time choose to rent or employ to Teem Holding and Guangdong Teem Properties Management Limited ("Teem Properties") respectively for the year. GDA was held as to 65% and 35% by the Company and Guangdong Teemall Department Stores Holdings Limited ("Teem Department Stores") respectively. The premises, i.e. GDA's Teem Plaza Store which is situated at Basement 1, Teem Plaza, 208 Tianhe Road, Guangzhou, being the subject of the tenancy agreement, is owned by Teem Holding. Teem Department Stores and Teem Properties are the wholly-owned subsidiaries of Teem Holding. The total amount of rents, management fees, utility expenses and other charges paid and payable by GDA for the year was RMB54,146,734. This amount does not exceed the cap amount of RMB70,000,000 as shown in the announcement of the Company dated 9 June 2010.

(ii) On 30 September 2021, AEON Co., Ltd. ("ACL"), the controlling shareholder of the Company, and the Company entered into a renewal agreement to renew the Royalty Agreement for another three years expiring on 31 December 2024. The renewed Royalty Agreement was renewed on substantially the same terms as the Royalty Agreement that was entered on 24 December 2018 and expired on 31 December 2021. ACL is a connected person of the Company and the entering into the renewed Royalty Agreement constitute continuing connected transactions of the Company.

DIRECTORS' REPORT

Pursuant to the Royalty Agreement, the Company and its Affiliates (through the Company) are granted:

(a) an exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business within the Territory;

(b) a non-exclusive right to use the PRC Trade Marks in relation to the Business within the PRC; and

(c) a non-exclusive right to use the Trade Marks in relation to the following businesses in the Territory and the PRC:

  (i) the provision of retail services;

  (ii) the operation of shopping centers; and

  (iii) catering services, food-court with seating and restaurants.

Under the renewed Royalty Agreement, ACL shall disclose full particulars of the Know-How to the Company and grant the Company the non-exclusive right to use the Know-How in relation to the Business in the Territory and the PRC.

The Company shall pay to ACL a fee in respect of each financial year of the Company:

(a) an amount representing 0.2% of the audited consolidated Total of Revenue of the Company and its Affiliates for that financial year: and

(b) an amount representing 0.05% of the audited Total of Revenue of the Company and its Affiliates in respect of the Business in the Territory for the relevant financial year.

The total amount of fees payable by the Company for the year was HK$26,526,409. This amount does not exceed the cap amount of HK$32,100,000 as shown in the announcement of the Company dated 30 September 2021.

Total of Revenue of the Company and its Affiliates is the aggregate of (i) the total amount of the consolidated direct sales; (ii) the total amount of the consolidated concessionaires sales; and (iii) the total amount of licensee fees and rentals received, all attributable to the rights to use the relevant Trade Marks. The total amount of the consolidated concessionaires sales represents the total amount of sales proceeds received by the respective concessionaires that are operating their business inside the respective store premises of the Company and its Affiliates. The "total amount of concessionaire sales" is different and is greater than the "income from concessionaire sales" as disclosed in note 5 to the consolidated financial statements, which is the income derived from the concessionaires' business operations.

DIRECTORS' REPORT

(iii) On 3 April 2020, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into the Renewal Agreement to renew the Master Agreement in respect of the Commission Payment Transactions for a further term of three years from 15 April 2020 to 14 April 2023. ACS and the Company are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company.

The entering into the Renewal Agreement constitutes continuing connected transactions of the Company. Pursuant to the Renewal Agreement, the Company shall pay commissions to ACS in respect of (1) credit purchase facilities made available to customers of the Company for making purchases at the Company's stores with the use of the various co-branded credit cards issued by ACS; (2) card instalment plan made available to customers of the Company for making purchases of goods and/or services at the Company's stores; (3) other payment solutions made and to be made available to customers of the Company for making purchases from time to time, including the usage of any kind of credit, debit, prepaid and/or stored value cards or other medium or facilities owned and/or operated by ACS; and (4) other related services provided to the Company or its customers which are derived from or ancillary to the transactions described above or arising out of the cards or other medium or facilities from time to time. The commissions are calculated on the basis of fixed percentages of the sales generated by the credit purchase facilities or the payment solutions provided by ACS, depending on the type of service provided. These commission rates (as may be revised from time to time) are and will be determined between the Company and ACS after arm's length negotiations, range from 0.6% to 2.4% of the relevant sales amount. In negotiating and agreeing the commission rates and other terms of the Commission Payment Transactions with ACS, the Company takes into account the prevailing market commission rates for similar types of transactions that are provided and/or made available by independent third parties to the Company and gives credit to ACS for any ancillary services provided and to be provided to the customers of the Company by ACS. Further, the Company has compared the fees charged by other independent third parties in the market for similar services to ensure that the price and terms offered by ACS are better than those offered by such third parties. The total amount of commissions paid by the Company for the year was HK$11,185,330. This amount does not exceed the relevant cap amount of HK$22,000,000 as shown in the announcements of the Company dated 3 April 2020.

(iv) On 30 June 2021, the Company entered into a renewal agreement to renew the Master Services Agreement with 永旺永樂(中國)物業服務有限公司 ("AEON Delight") for another three years commenced on 1 January 2022 and expiring on 31 December 2024. This Master Services Agreement was entered into on substantially the same terms as the Previous Master Services Agreement that the Company entered into with 永旺永樂(上海)企業管理有限公司 ("AEON Delight (Shanghai)") on 11 December 2018 which expired on 31 December 2021. AEON Delight is the contracting party to the Master Services Agreement in place of AEON Delight (Shanghai) due to the restructuring of AEON Delight and its group members ("AEON Delight Group"). AEON Delight is a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, the transactions under the Master Services Agreement constitute continuing connected transactions of the Company.

The Master Services Agreement sets out the framework for the continuing provision of the Services by the members of the AEON Delight Group. Services provided by AEON Delight Group to the Company Group including comprehensive building/facilities management, maintenance and cleaning services, management consultation, business services, research, development and production of computer hardware and software, data processing and such other services in relation to retail stores, offices and/or other facilities/ establishments operated by the Company Group.

The Company Group from time to time requires the Services in its ordinary and usual course of business. The Company Group selects providers for such Services with reference to prevailing market conditions and where appropriate, based on a procurement process conducted at arm's length basis, and make their selection based on normal commercial considerations.

DIRECTORS' REPORT

In relation to the procurement process, the relevant members of the Company Group may, in their sole and absolute discretion, invite the AEON Delight Group to tender to provide certain Services. If the AEON Delight Group is invited to tender, the relevant member of the Company Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Company Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. After considering the abovementioned factors, the management of the relevant member of the Company Group will then decide on which bidder to engage and enter into a services contract with for the provision of Services. Where a member of the AEON Delight Group is selected through relevant procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AEON Delight Group may from time to time (and AEON Delight shall procure such member of the AEON Delight Group to) enter into separate contracts setting out the detailed terms under which the relevant member of the AEON Delight Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on comparable terms to which the Company and/or the relevant member of the Group procures the Services from independent third parties.

The total aggregated amount of service fees paid and payable by the Company Group to AEON Delight Group in the year was RMB29,295,291. This amount does not exceed the cap amount of RMB40,500,000 as shown in the announcement of the Company dated 30 June 2021.

(v) On 23 November 2015, the subsidiary of the Company, Guangdong Aeon Teem Co., Ltd. ("GDA") as lessee, and 永旺夢樂城(廣東)商業有限公司 ("AEON Mall") as lessor entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the premises located at Units B1F0078, 1F1008 and 2F2028 Basement 1 and Basement 2, 1 Yayun Avenue, Dalong Street, Panyu, Guangzhou to GDA for a term of 20 years. AEON Mall is an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction of the Company. In accordance with the Tenancy Agreement, GDA pays rent, management fees, utility expenses and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time rent or employ with the consent of AEON Mall. The total amount of rent, management fees, utility expenses and other fees paid and payable by GDA for the year was RMB26,587,483. This amount does not exceed the cap amount of RMB45,700,000 as shown in the announcement of the company dated 23 November 2015.

(vi) On 22 February 2022, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into a renewal agreement to renew the Master Agreement in relation to the sales of the Company's Gift Certificates to ACS for a term of three years from 1 March 2022 to 28 February 2025. The renewed Master Agreement was renewed on substantially the same terms as the Master Agreement that was entered on 26 February 2019 and expired on 28 February 2022. The Company and ACS are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, and ACS is therefore a connected person of the Company. The entering into the renewed Master Agreement constitutes continuing connected transactions of the Company. Pursuant to the renewed Master Agreement, the Company sells its Gift Certificates to ACS at face value. The total amount of Gift Certificates sold by the Company to ACS in the year was HK$12,820,000. This amount does not exceed the aggregated cap amount of HK$16,600,000 as shown in the announcements of the Company dated 26 February 2019 and 22 February 2022 respectively.

DIRECTORS' REPORT

(vii) On 4 October 2021, each of the Company, its two subsidiaries being Guangdong AEON Teem Co., Ltd. ("GDA") and AEON South China Co., Ltd. ("ASC") and AEON (China) Co., Ltd. ("AEON China") entered into renewal agreements to renew the Consultancy Services Agreements for a period of three years from 1 January 2022 to 31 December 2024. The Previous Consultancy Services Agreements that were entered by each of the Company, GDA and ASC with AEON China on 16 January 2019 expired on 31 December 2021. AEON China is a subsidiary of AEON Co., Ltd. ("AEON Co"), the controlling shareholder of the Company, and AEON China is therefore a connected person of the Company. The entering into the renewed Consultancy Services Agreements constitutes continuing connected transactions of the Company.

Pursuant to the renewed Consultancy Services Agreements, the scope of the consultancy services to be provided by AEON China to the Company, GDA and ASC relates to (i) merchandise support; (ii) digitalization and operation support; (iii) store development support; (iv) store construction support; and (v) management support.

AEON China provided consultancy services to seven AEON group companies, including the Company, GDA, ASC and four subsidiaries of AEON Co. AEON China's service fees are charged on a cost-plus basis, representing its total costs of providing consultancy services plus 5% of such costs. When AEON China also provides the consultancy services to other AEON group companies, the Recipient Companies' sharing ratio of AEON China's total costs shall be the ratio of the actual total sales amounts of the respective Recipient Company against the actual total sales amounts of all AEON group companies, including the Company, GDA and ASC in that quarter.

The service fee payable by (i) the Company and (ii) each of GDA and ASC is subject to an annual maximum fee of (i) 0.15% and (ii) 0.20% of its respective audited total sales amount (as defined in each Consultancy Services Agreements) for that financial year.

The total amount of Consultancy Services fees and training fees paid and payable by the Company, GDA and ASC to AEON China in the year was RMB13,418,850. This amount does not exceed the cap amount of RMB15,900,000 as shown in the announcement of the Company dated 4 October 2021.

(viii) On 21 October 2022, the Company and AEON GLOBAL SCM Co., Ltd., ("AGSCM Japan") entered into a renewal agreement to renew the Master Services Agreement, pursuant to which AGSCM Japan and its subsidiaries ("AGSCM Group") will provide consultancy and logistics services ("Services") and the use of Warehouses to the Company and its subsidiaries ("Group"). The term of this Master Services Agreement shall be a period of three years from 1 December 2022 to 30 November 2025. AGSCM Japan is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company and the entering into of the Master Services Agreement in respect of the Services other than the use of Warehouse constitutes a continuing connected transaction of the Company.

The Group selects providers for the Services with reference to prevailing market conditions and based on a procurement process conducted on arm's length basis, and makes their selection based on normal commercial considerations. In relation to the procurement process, the relevant member of the Group may, in their sole and absolute discretion, invite the AGSCM Japan Group to tender to provide certain Services. If the AGSCM Japan Group is invited to tender, the relevant member of the Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. After considering the abovementioned factors, the management of the relevant member of the Group will then decide on which bidder to engage and enter into a service contract with the bidder for the provision of Services.

DIRECTORS' REPORT

The transaction amount of the Master Services Agreement in the year was RMB11,586,132. This amount does not exceed the aggregated cap amount of RMB21,710,000 as shown in the announcements of the Company dated 3 December 2019 and 21 October 2022 respectively.

(ix) On 7 June 2021, Guangdong AEON Teem Co., Ltd. ("GDA"), a subsidiary of the Company, and 永旺夢樂城（廣東）商業管理有限公司 ("Sublessee 2") entered into the 2021 Sublease Agreement (as defined in the announcement dated 7 June 2021) in respect of the sublease of Unit 502 and 503, 5th Floor Fortune Plaza West Tower, No. 118 Tiyu East Road, Tian He District, Guangzhou ("Sublease Premises 2"). Pursuant to the 2021 Sublease Agreement, Sublessee 2 pays deposits, rents, management fees, utilities charges and other fees in relation to the use of the Sublease Premises 2 to GDA. The 2021 Sublease Agreement has a term of 12 months from 1 August 2021 to 31 July 2022. Sublessee 2 is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the 2021 Sublease Agreement constitutes continuing connected transactions of the Company. The terms of the 2021 Sublease Agreement have been reached after arm's length negotiations between the parties. As the transaction contemplated under the 2021 Sublease Agreement is of similar nature with those under the Renewed Sublease Agreements and entered into with subsidiaries of AEON Co., Ltd. and both the 2021 Sublease Agreement and the Renewed Sublease Agreements will be carried out on a continuing basis over a period of time, the annual caps of all such continuing connected transactions are aggregated in accordance with Rule 14A.81 of the Listing Rules. The aggregated amounts of rents, management fees, utilities expenses and other fees received by GDA from respective Sublessees in the year was RMB1,596,404. This amount does not exceed the cap amount of RMB1,690,000 as shown in the announcement of the Company dated 7 June 2021.

(x) On 31 July 2020, the Company and 永旺數字科技有限公司 ("ADMC") (formerly known as AEON 信息系统集成（杭州）有限公司 ("AIBS")) entered into the Renewed IT Master Agreement to renew the IT Master Agreement entered into between the Company and ADMC on 30 August 2017. Pursuant to which ADMC shall provide the Services (as defined in the announcement dated 31 July 2020) to the Company and any of its subsidiaries, each a "Member". The term of the IT Master Agreement shall be a period of three years from 30 August 2020 to 29 August 2023. ADMC is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Renewed IT Master Agreement constitute continuing connected transactions of the Company. Pursuant to the Renewed IT Master Agreement, the fees for the provision of Services by ADMC shall be charged on a cost-plus basis, representing the Actual Costs plus a mark-up rate of not more than 10%. The prices offered by ADMC shall be no less favourable than (i) prices available in the market for the same or similar services; and (ii) the prices offered by ADMC to its other Users (i.e. parties, including the Members, who are using the services provided by ADMC which are the same as or similar to the Services), if any. The total aggregated amount of service fees paid and payable by the Company Group to ADMC in the year was RMB18,343,590. This amount does not exceed the Revised cap amount of RMB21,600,000 as shown in the announcement of the Company dated 4 December 2020.

DIRECTORS' REPORT

(xi) On 15 December 2020, Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company and 永旺夢樂城（佛山南海）商業管理有限公司 ("AMBM") entered into the Master Agreements to govern certain transactions arising out of GDA's lease of the premises at 佛山市南海區大瀝鎮聯滘滘口路13號負一層店號0001, 一層店號1001, 二層店號2001, 三層店號3001. The term of the Master Agreement shall be a period of three years from 19 December 2020 to 18 December 2023. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions of the Company. GDA's leased premises are located in the Dali Mall and AMBM is the head tenant of the Dali Mall. AMBM, as head tenant, is responsible for making payment of utilities expenses and property management fees in respect of the entire Dali Mall. The amounts paid by GDA to AMBM pursuant to the Master Agreement represent GDA's proportionate contribution to such expenses and fees, which will then be paid by AMBM to relevant authorities or parties on behalf of GDA. The rates for utilities expenses and property management fees are no less favourable than those applicable to AMBM or its other tenants. The total aggregated amount of the fees paid and payable by the GDA to AMBM in the year was RMB5,125,411. This amount does not exceed the cap amount of RMB6,130,000 as shown in the announcement of the Company dated 15 December 2020.

(xii) On 30 June 2022, the Company and AEON TopValu Co., Ltd. ("TopV") entered into the renewal agreement to renew the Master Trademark Licence Agreement in respect of the granting of the licence to use the TopValu Trademarks and the related ancillary services to be provided by the TopV Group. The Previous Master Trademark Licence Agreement which was entered by the Company and TopV on 31 December 2018 expired on 31 December 2021. The term of the Master Trademark Licence Agreement is for three years from 1 January 2022 to 31 December 2024. TopV is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Master Trademark Licence Agreement constitute continuing connected transactions of the Company. Pursuant to the Master Trademark Licence Agreement, TopV agreed to (i) grant (and/or procure other members of the TopV Group to grant) to members of the Group the licence to use the TopValu Trademarks and (ii) provide (and/or procure other members of the TopV Group to provide) the ancillary services to the members of the Group. In consideration to the grant of the licence to use the TopValu Trademarks and the ancillary services, the relevant member of the Group shall pay to the relevant member of the TopV Group a licence fee equivalent to 7% of the amount of purchase costs of the TopV Products (excluding any value added tax or other tax or freight expenses) supplied by manufacturers or suppliers to the Group.

The ancillary services that the TopV Group provides to the Group includes:

(i) conduct market research, planning and development of products;

(ii) establish product specifications;

(iii) provide to members of the Group with information on product specifications, product cost and related expenses;

(iv) manage production and conduct quality control on products;

(v) provide information on promotion; and

(vi) any other services in connection with the above.

The total aggregated amount of the fees paid and payable by the Group to TopV Group in the year was HK$12,903,597. This amount does not exceed the cap amount of HK$32,700,000 as shown in the announcement of the Company dated 30 June 2021.

DIRECTORS' REPORT

(xiii) On 16 December 2021, Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company and 永旺夢樂城(廣州白雲)商業管理有限公司 ("AMBM") entered into the Master Agreement to govern certain transactions in respect of GDA's lease of the premises at Shop No.43, located in the 永旺夢樂城廣州金沙購物中心 in Jinshazhou, Baiyun District, Guangzhou ("Jinsha Mall"). The Existing Management Agreement entered between GDA and AMBM on 29 January 2019 expired on 31 January 2022. The term of the Master Agreement is from 1 February 2022 to 31 January 2025. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Master Agreement constitute continuing connected transaction of the Company.

AMBM has been appointed by the landlord of the Premises ("Landlord") as the property manager to manage the operation of the Jinsha Mall and shall pay the utilities expenses incurred in the Jinsha Mall to the utility suppliers on behalf of the Landlord and pay for expenses relating to facilities maintenance, repair and replacement and the property management. The amounts payable by GDA to AMBM pursuant to the Master Agreement represent GDA's proportionate contribution to such expenses, which will be subsequently paid by AMBM to the utility suppliers or relevant authorities or parties.

Utilities expenses incurred by GDA in the Premises, comprising water and electricity expenses, were determined with reference to the actual usage of GDA and local municipal standard rates for electricity charges and water charges.

Expenses incurred for the maintenance, repair and replacement of facilities used by both GDA and AMBM were borne by GDA and AMBM on pro rata basis. Expenses incurred for maintenance, repair and replacement of facilities exclusively used by GDA were fully borne by.

Monthly property management fees paid by GDA to AMBM covered among other things, (i) cleaning fees in respect of public areas within the Jinsha Mall; (ii) cleaning and maintenance fees in respect of public facilities within the Jinsha Mall; (iii) afforestation fees in respect of public areas within the Jinsha Mall; and (iv) fees for maintenance of safety and security in public areas and carpark of Jinsha Mall. A fixed rate of RMB10 (tax inclusive) per square metre of the Premises was applied towards the calculation of the property management fees payable by GDA.

The total aggregated amount of the fees paid and payable by GDA to AMBM in the year was RMB3,942,582. This amount does not exceed the aggregated cap amount of RMB5,740,000 as shown in the announcements of the Company dated 29 January 2019 and 16 December 2021 respectively.

(xiv) On 25 March 2022, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into the Licence Agreement, pursuant to which the Company gives ACS the right to use the Shop No. L108 on 1/F ("Shop") of the Company's store premises located at the ground to fourth floors of Kornhill Plaza (South), 2 Kornhill Road Quarry Bay, Hong Kong ("Premises") for a fixed term of one year from 1 April 2022 to 31 March 2023 at the licence fees of HK$236,310 per month exclusive of government rates and management fees. The previous Licence Agreement entered between the Company and ACS on 23 February 2021 expired on 31 March 2022. ACS and the Company are both subsidiaries of AEON Co., Ltd., the controlling shareholder of the Company. ACS is therefore a connected person of the Company and the transactions contemplated under the Licence Agreement constitute continuing connected transactions of the Company.

DIRECTORS' REPORT

The Company has entered into a lease agreement with a landlord, which is an independent third party, to lease the Premises (in which the Shop is located) and has been given the express right to grant licences to licensees for the use of portions of the Premises including the Shop. ACS is the card issuer of the Company's co-brand credit cards. The licence granted under the Licence Agreement is mainly for ACS's purpose of operating its service counters inside Company's store in the Premises, which provide supporting services to the co-brand cardholders.

During the term of the licence, ACS shall:

(i) pay to the Company licence fees of HK$236,310 per month;

(ii) pay the rates assessed or charged on the Shop to the Hong Kong government;

(iii) pay to the Company all charges for utilities in respect of the Shop; and

(iv) pay to the Company monthly management fees of HK$11,578 or such other increased rate as the Company shall from time to time decide.

The licence fees and management fees were negotiated by the parties at arm's length and by reference to (i) the license fees and management fees which the Company charges to its other licensees; (ii) the business nature of ACS and other licensees; and (iii) the location of the Shop within the Premises.

The total aggregated amount of the licence fees, management fees, government rates and utilities charges paid and payable by ACS to the Company in the year was HKD3,114,197. This amount does not exceed the aggregated relevant cap amount of HKD3,430,000 as shown in the relevant announcements of the Company dated 23 February 2021 and 25 March 2022 respectively.

(xv) On 29 May 2020, AEON South China Co., Ltd. ("ASC"), a wholly-owned subsidiary of the Company, and AEON TopValu (China) Co., Ltd. ("ATV China") entered into the Product Development Agreement. The term of the Product Development Agreement commenced from 29 May 2020 and expired on 31 December 2022. ATV China is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Product Development Agreement constitute continuing connected transactions for the Company.

Pursuant to the Product Development Agreement, ASC was engaged by ATV China to conduct the following:

(a) market research on, and design and development of, the food products and non-food supermarket products bearing the "TopValu" trademark, which are designed and developed by ASC ("Relevant ATV Products");

(b) preparation of manual for manufacturers on product design, product formula, product standard and relevant computer software in respect of the Relevant ATV Products;

(c) determination on product samples for the Relevant ATV Products; and

(d) other business relating to development of the Relevant ATV Products as shall be agreed by ASC and ATV China.

As consideration for ASC's design and development of the Relevant ATV Products, ATV China shall pay ASC a fee equal to 4% of the total purchase price (excluding tax) paid by ATV China for the purchase of the Relevant ATV Products. The fee was determined taking into account the proportion of respective benefits enjoyed by ATV China and corresponding consideration that shall be paid by ATV China for the efforts of ASC in the design and development of the Relevant ATV Products.

The total amount of the fees received and receivable by ASC in the year was RMB2,225,512. This amount does not exceed the cap amount of RMB7,500,000 as shown in the announcement of the Company dated 29 May 2020.

(xvi) On 17 August 2020, 永旺夢樂城（廣州增城）商業管理有限公司 ("AEON Mall") as lessor and Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company, as lessee entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the premises located at 中國廣東省廣州市增城區永寧街香山大道2號，現暫定名稱為永旺夢樂城廣州增城購物中心1層，自編1000房號 ("Premises") to GDA for a term of twenty years from tentatively 31 October 2020, subject to completion of construction work and fulfilment of handover conditions as agreed by the parties in the Tenancy Agreement. AEON Mall is a connected person of the Company by virtue of it being an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction of the Company.

Pursuant to the Tenancy Agreement, GDA shall pay to AEON Mall the following:

(a) rent (inclusive of VAT) calculated according to the rates ranged from 1.8% to 3.5% of GDA's direct sales turnover for respective months (after expiry of rent free period). The rent payable under the Tenancy Agreement has been determined with reference to the prevailing market price for comparable premises in the area at the relevant time;

(b) management fee in respect of the Premises at a fixed rate of RMB10 per square metre which, subject to mutual consent, may be reviewed every three years during the term of the Tenancy Agreement;

(c) utilities expenses (including water, electricity and air conditioning) based on its actual usage; and

(d) such other rent, usage charges and fees in relation to any provisional showrooms, storage areas, services, other facilities and special equipment that GDA may from time to time rent or employ with the consent of AEON Mall (on the basis of actual usage).

The terms of the Tenancy Agreement are arrived at after arm's length negotiations between AEON Mall and GDA.

The total aggregated amount of the rent, management fees, utilities expenses and other fees paid by GDA to AEON Mall in the year was RMB4,442,763. This amount does not exceed the Revised cap amount of RMB6,400,000 as shown in the announcement of the Company dated 22 October 2021.

(xvii) On 30 June 2021, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into the Card Acquiring Merchant Agreement in respect of the card acquiring services provided by ACS to the Company fora term of three years from 16 August 2021 to 15 August 2024. ACS and the Company are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the Card Acquiring Merchant Agreement constitutes continuing connected transactions of the Company.

DIRECTORS' REPORT

Pursuant to the Card Acquiring Merchant Agreement, the Company shall pay Merchant Discount Amount to ACS in respect of each completed Transaction using a Card issued by entities other than ACS. Merchant Discount Amount represents applicable discount rates, ranging from 1.15% to 1.90%, multiplied by the Transaction amount payable to the Company for the relevant Transaction.

The Company invited four service providers, including ACS, the existing independent service provider and two other service providers which are parties independent of the Company and its connected persons, to submit tender for the said card acquiring services and ACS offered the Lowest Fee Rate.

The total amount of Merchant Discount Amount paid by the Company in the year was HK$15,703,443. This amount does not exceed the cap amount of HK$21,800,000 as shown in the announcement of the Company dated 30 June 2021.

During the year, the above continuing connected transactions were carried out within their respective applicable annual caps for the year. The Independent Non-Executive Directors had reviewed the above continuing connected transactions and confirmed that the transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; (iii) in accordance with each of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

(b) Connected Transaction

On 21 October 2022, the Company and AEON GLOBAL SCM Co., Ltd., ("AGSCM Japan") entered into the Master Services Agreement to renew the Previous Master Services Agreement which was expired on 30 November 2022. Pursuant to the Master Services Agreement, the Group shall pay a fixed monthly fee of approximately RMB238,000 (excluding tax) to AGSCM Group for the use of the Warehouse, which is located at Dongguan City of Guangdong Province in China. The use of Warehouse will require the Group to recognise the use of the Warehouse as an acquisition of a right-of-use asset of the Group. The acquisition of right-of-use asset is a one-off transaction pursuant to the Listing Rules. Accordingly, the Group has recognized the amount of RMB8,316,376 as right-of-use asset in the year.

AGSCM Japan is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. The entering into of the Master Services Agreement in respect of the use of Warehouses constitutes an one-off connected transaction for the Company.

The related party transactions as disclosed in note 39 to the consolidated financial statements also fell under the definition of "connected transactions" or "continuing connected transactions" in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from the Independent Non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-Executive Directors are independent.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2022, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Substantial shareholders	Long Position Number of ordinary shares held	Approximate percentage of the total number of issued shares
AEON Co., Ltd.	157,536,000 (Note)	60.59%

Note: These shares are held as to 155,760,000 shares by AEON Co., Ltd. and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS"). ACS is owned by AEON Co., Ltd., as to 281,138,000 shares representing 67.13% of the issued share capital of ACS. AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

Other than as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company as at 31 December 2022.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its subsidiaries, its ultimate holding company, or any of its fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$1,460,000.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30% of the Group's total sales and purchases for the year.

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of the issued shares of the Company) had any interest in these major customers and suppliers.

DIRECTORS' REPORT

EMOLUMENT POLICY

The emoluments of the Directors of the Company are recommended by the Remuneration Committee and approved by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

RETIREMENT SCHEMES

Details of retirement schemes operated by the Group are set out in note 38 to the consolidated financial statements.

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.

AUDITOR

Messrs. Deloitte Touche Tohmatsu ("Deloitte") retired as auditor of the Company at the conclusion of the Company's annual general meeting held on 30 May 2022 ("2022 AGM"). Messrs. KPMG ("KPMG") have been appointed as new auditor of the Company at the 2022 AGM upon the retirement of Deloitte.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint KPMG as auditor of the Company.

On behalf of the Board

I. nakagawa

NAKAGAWA Isei
Chairman

Hong Kong, 28 March 2023

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AEON STORES (HONG KONG) CO., LIMITED
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited ("the Company") and its subsidiaries ("the Group") set out on pages 58 to 125, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are the matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

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

Refer to the accounting policies in note 3, and notes 4 and 20 to the consolidated financial statements

THE KEY AUDIT MATTER

At 31 December 2022, the net book value of the Group's property, plant and equipment and right-of-use assets, amounted to HK$431,155,000 and HK$2,496,964,000, respectively.

Management has determined each individual retail store as a separate cash-generating unit ("CGU"). Management reviews the performance of individual CGU to identify if there are any impairment indicators on the allocated assets of the CGUs which mainly comprise property, plant and equipment and right-of-use assets. Where impairment indicators are identified, management performs an impairment assessment of the CGUs by determining the recoverable amount of the CGUs, which is the higher of fair value less costs of disposal and value in use, and then comparing the carrying value of the allocated assets of the CGUs with the recoverable amount of the CGUs. Based on the impairment assessments performed by management, impairment losses on property, plant and equipment and right-of-use assets of HK$26,749,000 and HK$1,925,000, respectively were recognised in profit or loss for the year ended 31 December 2022.

We identified the assessment of impairment of property, plant and equipment and right-of-use assets as a key audit matter because of the significance of the carrying value of such assets to the consolidated financial statements and because of, for value in use assessment, the determination of key assumptions used in the discounted cash flow forecasts, including future revenue growth rates, gross margins and discount rates; and for fair value less costs of disposal assessment, market rents and market yields, which are subject to a significant degree of judgement and could be subject to management bias.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our audit procedures to assess impairment of property, plant and equipment and right-of-use assets included the following:

- understanding and evaluating the design and implementation of key internal controls in place over the impairment assessment;
- evaluating management's assessment of impairment indicators of individual CGU with reference to the requirements of the prevailing accounting standards;
- considering whether there is any indication that a previously recognised impairment losses for a CGU may no longer exist or may have decreased;

For those identified CGUs with significant carrying value where the recoverable amounts were determined based on value in use;

- comparing the key assumptions used in the discounted cash flow forecasts prepared by management, including future revenue growth rates and gross margins, with the historical performance and up-to-date approved budgets of the identified CGUs;
- with the assistance of our internal valuation specialists, evaluating the methodology used by management in the preparation of its discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing the discount rates used in the discounted cash flow forecasts by benchmarking against other similar retailers;
- performing sensitivity analysis of the significant inputs, including future revenue growth rates, gross margins and the discount rates used in the discounted cash flow forecasts prepared by management and considered the resulting impact on the impairment charge for the period and whether there were any indicators of management bias;

INDEPENDENT AUDITOR'S REPORT

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

Refer to the accounting policies in note 3, and notes 4 and 20 to the consolidated financial statements

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
	• comparing the actual results of the identified CGUs for the current year with the key assumptions adopted by management in the discounted cash flow forecasts for prior year to assess the effectiveness of the management's forecasting process and consider if there was any indication of management bias; For those identified CGUs with significant carrying value where the recoverable amounts were determined based on fair value less costs of disposal: • evaluating key assumptions used in determining the fair value less cost of disposal of the identified CGUs, including market rents and market yields; and evaluating the methodology used in the independent professional valuer's report with reference to the requirements of the prevailing accounting standards, with the assistance from our internal valuation specialists; and • assessing the external valuer's qualifications, experience, competence and objectivity.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Chui Kin Pong.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	**2022** **HK$'000**	2021 HK$'000
Revenue	5	**9,571,321**	9,554,854
Other income	7	**483,692**	499,658
Investment income	8	**22,215**	22,122
Interest income from rental deposits		**10,802**	10,414
Purchase of goods and changes in inventories		**(6,750,962)**	(6,796,846)
Staff costs		**(1,100,476)**	(1,101,078)
Depreciation of investment properties	21	**(68,861)**	(85,369)
Depreciation of property, plant and equipment	18	**(179,290)**	(213,325)
Depreciation of right-of-use assets	19	**(733,304)**	(753,963)
Leases expenses		**(73,253)**	(88,818)
Other expenses	9	**(1,122,805)**	(1,110,621)
Pre-operating expenses	10	**(2,866)**	(6,536)
Other gains and losses	11	**(39,186)**	(136,747)
Interest on lease liabilities		**(236,545)**	(283,649)
Loss before tax		**(219,518)**	(489,904)
Income tax expense	12	**(5,198)**	(13,293)
Loss for the year	13	**(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)	17	**(84.57)** **HK cents**	(180.76) HK$ cents

The notes on pages 65 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 HK$'000	2021 HK$'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)

The notes on pages 65 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	18	**431,155**	580,771
Right-of-use assets	19	**2,496,964**	3,206,344
Investment properties	21	**280,181**	373,910
Equity instruments at FVTOCI	23	**18,925**	18,982
Pledged bank deposits	24	**22,643**	24,698
Time deposits	29	**6,068**	–
Deferred tax assets	25	**25,670**	33,583
Rental and related deposits paid	26	**220,507**	217,370
		3,502,113	4,455,658
Current assets			
Inventories	27	**892,697**	953,839
Receivables, prepayments and deposits	26	**152,495**	141,157
Amounts due from fellow subsidiaries	28	**59,025**	58,581
Time deposits	29	**289,524**	285,672
Pledged bank deposits	24	**7,785**	11,251
Bank balances and cash	30	**1,133,879**	1,547,893
		2,535,405	2,998,393
Current liabilities			
Trade payables	31	**1,088,346**	1,296,730
Other payables, accrued charges and other liabilities	31	**731,711**	781,175
Lease liabilities	32	**827,036**	833,899
Contract liabilities	31	**436,711**	481,524
Dividend payable		**213**	272
Amount due to ultimate holding company	33	**27,030**	27,596
Amounts due to fellow subsidiaries	33	**39,918**	38,331
Tax payable	31	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 HK$'000	2021 HK$'000
Capital and reserves			
Share capital	34	**115,158**	115,158
Reserves		**(115,432)**	88,286
Equity attributable to shareholders 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	31	**130,200**	139,178
Lease liabilities	32	**2,654,292**	3,532,447
		2,784,492	3,671,625
Total equity and non-current liabilities		**2,886,366**	3,994,315

Approved and authorised for issue by the board of directors on 28 March 2023.

I. nakagawa

ISEI NAKAGAWA
Director

T. Nagashima.

TAKENORI NAGASHIMA
Director

The notes on pages 65 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	People's Republic of China (the "PRC") statutory reserves HK$'000	Non-distributable reserve HK$'000	Accumulated loss HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2022	115,158	16,577	18,028	36,150	134,535	(117,004)	203,444	119,246	322,690
Loss for the year	–	–	–	–	–	(219,872)	(219,872)	(4,844)	(224,716)
Other comprehensive (loss)/income for the year	–	(56)	29,150	–	–	–	29,094	(12,254)	16,840
Total comprehensive (loss)/income for the year	–	(56)	29,150	–	–	(219,872)	(190,778)	(17,098)	(207,876)
Transfer of reserves	–	–	–	(624)	–	624	–	–	–
Dividends recognised as distribution (note 16)	–	–	–	–	–	(13,000)	(13,000)	–	(13,000)
Unclaimed dividends forfeited	–	–	–	–	–	60	60	–	60
At 31 December 2022	115,158	16,521	47,178	35,526	134,535	(349,192)	(274)	102,148	101,874

	Attributable to owners of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	People's Republic of China statutory reserves HK$'000	Non-distributable reserve HK$'000	Accumulated loss HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2021	115,158	17,444	25,638	36,150	134,535	373,731	702,656	146,976	849,632
Loss for the year	–	–	–	–	–	(469,963)	(469,963)	(33,234)	(503,197)
Other comprehensive (loss)/income for the year	–	(867)	(7,610)	–	–	–	(8,477)	5,504	(2,973)
Total comprehensive (loss)/income for the year	–	(867)	(7,610)	–	–	(469,963)	(478,440)	(27,730)	(506,170)
Dividends recognised as distribution (note 16)	–	–	–	–	–	(20,800)	(20,800)	–	(20,800)
Unclaimed dividends forfeited	–	–	–	–	–	28	28	–	28
At 31 December 2021	115,158	16,577	18,028	36,150	134,535	(117,004)	203,444	119,246	322,690

PRC statutory reserves are reserves required by the relevant PRC laws applicable to the subsidiaries of the Company in the PRC.

Non-distributable reserve is the reserve arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC.

The notes on pages 65 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 HK$'000	2021 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(219,518)**	(489,904)
Adjustments for:		
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
Interest on lease liabilities	**236,545**	283,649
Interest income from rental deposits	**(10,802)**	(10,414)
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
Investment income	**(22,215)**	(22,122)
Loss on disposal/write-off of property, plant and equipment	**4,899**	694
Write-back of inventories	**(3,353)**	(990)
Gain on lease modifications	**(19,921)**	(39,518)
Operating cash flows before movements in working capital	**975,764**	965,182
Decrease/(increase) in inventories	**15,024**	(43,830)
Increase in receivables, prepayments and deposits	**(56)**	(11,590)
(Increase)/decrease in amounts due from fellow subsidiaries	**(537)**	4,456
(Decrease)/increase in trade payables	**(141,355)**	28,490
(Decrease)/increase in other payables, accrued charges and other liabilities	**(16,522)**	24,225
Increase in contract liabilities	**880**	23,282
(Decrease)/increase in amount due to ultimate holding company	**(566)**	598
Increase in amounts due to fellow subsidiaries	**5,363**	8,352
CASH GENERATED FROM OPERATIONS	**837,995**	999,165
Income taxes paid	**(540)**	(5,836)
Interest on bank deposits and time deposits received	**27,676**	29,849
NET CASH FROM OPERATING ACTIVITIES	**865,131**	1,023,178

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 HK$'000	2021 HK$'000
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(5,074)**	(4,900)
Withdrawal of pledged bank deposits	**6,650**	2,972
Dividends from equity instruments at FVTOCI	**1,674**	1,522
Purchase of property, plant and equipment	**(93,076)**	(166,056)
Proceeds from disposal of property, plant and equipment	**496**	538
Payment for right-of-use assets	**(1,563)**	(4,741)
Net payment for rental deposits	**(4,365)**	(19,920)
Placement of time deposits	**(314,327)**	(653,649)
Withdrawal of time deposits	**283,973**	838,513
NET CASH USED IN INVESTING ACTIVITIES	**(125,612)**	(5,721)
FINANCING ACTIVITIES		
Dividend paid	**(12,999)**	(20,795)
Interest on lease liabilities	**(236,545)**	(283,649)
Repayments of lease liabilities	**(828,937)**	(732,876)
CASH USED IN FINANCING ACTIVITIES	**(1,078,481)**	(1,037,320)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(338,962)**	(19,863)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,547,893**	1,537,837
Effect of foreign exchange rate changes	**(75,052)**	29,919
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**1,133,879**	1,547,893

The notes on pages 65 to 125 form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 GENERAL

AEON Stores (Hong Kong) Co., Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and its ultimate parent is AEON Co., Ltd., incorporated and listed in Japan.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activity of the Company and its subsidiaries (the "Group") is the operation of retail stores.

The consolidated financial statements are presented in Hong Kong dollar ("HK$" or HKD"). The Company's functional currency is HKD, while the functional currency of the subsidiaries registered in the PRC is Renminbi ("RMB").

2 APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accounts ("HKICPA") to these financial statements for the current accounting period:

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*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 16 Property, plant and equipment: Proceeds before intended use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these financial statements as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to HKAS 37 Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Previously, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

2 APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the company.

		Effective for accounting periods beginning on or after
HKFRS 17	*Insurance contracts*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Presentation of financial statements, Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8	*Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12	*Income Taxes: Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
Amendments to HKAS 1	*Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2024
Amendments to HKAS 1	*Presentation of financial statements: Non-current liabilities with covenants*	1 January 2024
Amendments to HKFRS 16	*Leases: Lease liability in a sale and leaseback*	1 January 2024

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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$615.8 million as 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 concluded that there is 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 next twelve months from 31 December 2022. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation of consolidated financial statements (Continued)

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied which is the point in time when "control" of the goods or services underlying the particular performance obligation is transferred to the customer, i.e. when the customer takes possession of and accepts the goods sold by the Group. Payment of the transaction price is due immediately when the customer purchases the goods in store.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Revenue arising from recognition of unutilised balances on aged prepaid cards

Revenue arising from recognition of unutilised balances on aged prepaid cards is recognised according to the "remote recognition" method. Under this policy, the unutilised balance on the card will be recognised as revenue once it is possible to determine with a sufficiently high degree of probability that the likelihood of future utilisation is remote.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (sales of goods and award credits for customers under the Group's customer loyalty scheme), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. direct sales in which the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. income from concessionaire sales in which the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to a customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party to a customer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases for staff quarters, office equipment and advertising billboards that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9, Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term. Variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15, Revenue from Contracts with Customers to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sub-lease

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use assets arising from the head lease, not with reference to the underlying asset.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Pre-operating expenses

Expenses relating to the setting up of stores are charged directly to profit or loss when incurred.

Retirement benefits costs

Payments to the defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12, *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties also include leased properties which are being recognised as right-of-use assets and sub-leased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any recognised impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

If an investment property becomes a right-of-use asset because its use has changed as evidenced by the commencement of owner-occupation, the carrying amount of the property at the date of transfer is transferred to right-of-use asset.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment on property, plant and equipment, investment properties and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, investment properties and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, investment properties and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Impairment on property, plant and equipment, investment properties and right-of-use assets (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories, which represent merchandise held for retail sale, are stated at the lower of cost and net realisable value. "Purchase of goods and changes in inventories" as reported in the consolidated statement of profit or loss are determined using retail price method.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Provisions (Continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3, *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated loss.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "investment income" line item in profit or loss.

Impairment assessment of financial assets under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including pledged bank deposits, accounts receivables, other receivables, amounts due from fellow subsidiaries, time deposits, and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment assessment of financial assets under HKFRS 9 (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

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

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment assessment of financial assets under HKFRS 9 (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment assessment of financial assets under HKFRS 9 (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for accounts receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets (Continued)

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

4 KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount which is higher of value in use and fair value less cost of disposal, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset and in the case of fair value less cost of disposal, income approach is used by referencing to recent market rents of comparable assets; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including revenue growth rates, gross margins and an appropriate discount rate in the cash flow projections in the case of value in use and, market rents and market yield in the use of fair value less cost of disposal. Changes in the assumptions and estimates could materially affect the recoverable amounts.

Details of the impairment assessment on property, plant and equipment, investment properties and right-of-use assets are disclosed in notes 20 and 21.

5 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 HK$'000	**PRC HK$'000**	**Total 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 HK$'000	PRC HK$'000	Total 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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

5 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 been transferred to the customer, 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 been 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.

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 is responsible for arranging licensees to sell their own 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.

6 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 PRC as the two reportable segments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

6 OPERATING SEGMENTS (Continued)

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 HK$'000	PRC HK$'000	Elimination HK$'000	Total HK$'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)**

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)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment loss represents the loss incurred by each segment without allocation of investment income. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

6 OPERATING SEGMENTS (Continued)

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.

Other segment information

For the year ended 31 December 2022

	Hong Kong HK$'000	**PRC HK$'000**	**Segment total HK$'000**
Amounts included in the measure of segment loss:			
Depreciation of investment properties	**35,904**	**32,957**	**68,861**
Depreciation of property, plant and equipment	**85,362**	**93,928**	**179,290**
Depreciation of right-of-use assets	**509,442**	**223,862**	**733,304**
Impairment loss recognised in respect of property, plant and equipment	**18,539**	**8,210**	**26,749**
Impairment loss recognised in respect of right-of-use assets	**1,925**	**–**	**1,925**
Loss on disposal/write-off of property, plant and equipment	**1,503**	**3,396**	**4,899**
Gain on lease modifications	**(182)**	**(19,739)**	**(19,921)**
Write-back of inventories	**–**	**(3,353)**	**(3,353)**
Interest on lease liabilities	**128,737**	**107,808**	**236,545**

For the year ended 31 December 2021

	Hong Kong HK$'000	PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment loss:			
Depreciation of investment properties	39,638	45,731	85,369
Depreciation of property, plant and equipment	103,028	110,297	213,325
Depreciation of right-of-use assets	493,643	260,320	753,963
Impairment loss recognised in respect of property, plant and equipment	2,233	28,860	31,093
Impairment loss recognised in respect of right-of-use assets	34,796	62,403	97,199
Loss on disposal/write-off of property, plant and equipment	429	265	694
Gain on lease modifications	(237)	(39,281)	(39,518)
Write-back of inventories	–	(990)	(990)
Interest on lease liabilities	145,064	138,585	283,649

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

6 OPERATING SEGMENTS (Continued)

Geographical information

The information of the Group's non-current assets by geographical location of assets other than equity instruments at FVTOCI, pledged bank deposits, time deposits and deferred tax assets are set out below:

	2022 HK$'000	2021 HK$'000
Hong Kong	**2,014,014**	2,541,976
PRC	**1,414,793**	1,836,419
	3,428,807	4,378,395

Information about major customers

None of the Group's single customer attributed to more than 10% of the Group's total external revenue for both years.

7 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.

8 INVESTMENT INCOME

	2022 HK$'000	2021 HK$'000
Dividends from equity instruments at FVTOCI	**1,674**	1,522
Interest from bank and time deposits	**20,541**	20,600
	22,215	22,122

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

9 OTHER EXPENSES

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

10 PRE-OPERATING EXPENSES

The amounts represent the set up costs for new stores. Included in pre-operating expenses for the year ended 31 December 2022 are staff costs of HK$1,331,000 (2021: HK$5,253,000).

11 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/write-off of property, plant and equipment	**(4,899)**	(694)
Gain on lease modifications	**19,921**	39,518
	(39,186)	(136,747)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

12 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 (note 25)		
Current year	4,658	7,842
Under-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.

The income tax expense for the year can be reconciled from the loss before tax as follows:

	2022 HK$'000	2021 HK$'000
Loss before tax	(219,518)	(489,904)
Notional tax on loss before tax, calculated at the rates applicable in the relevant tax jurisdictions	(44,794)	(100,626)
Tax effect of expenses not deductible for tax purpose	5,867	25,984
Tax effect of income not taxable for tax purpose	(9,772)	(19,523)
Tax effect of deductible temporary difference not recognised	33,271	48,997
Tax effect of tax losses not recognised	20,086	53,434
Withholding tax on undistributed earnings of a subsidiary	–	(234)
Withholding tax on interest income of a subsidiary	540	575
Under-provision of deferred tax asset provided in prior years	–	4,686
Income tax expense	5,198	13,293

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

13 LOSS FOR THE YEAR

	2022 HK$'000	2021 HK$'000
Loss for the year has been arrived at after charging/(crediting):		
Auditor's remuneration		
– audit services	**5,609**	5,626
– tax services	**684**	1,309
– other services	**644**	2,193
Expenses relating to		
– short-term leases and leases of low-value assets	**12,754**	19,605
– variable lease payment (Note)	**61,644**	70,040
	74,398	89,645
Contributions to retirement benefit scheme	**96,272**	103,269
Gross rental income from investment properties		
– fixed	**(243,244)**	(240,156)
– variable (Note)	**(103,812)**	(130,818)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**97,887**	117,385
	(249,169)	(253,589)
Cost of inventories recognised as an expense	**6,750,962**	6,797,836
Write-back of inventories (included in purchase of goods and changes in inventories)	**(3,353)**	(990)

Following by a series of promotion campaign in PRC retail stores during the year, write-back of inventories amounting to HK$3,353,000 (2021: HK$990,000) has been recognised in "purchases of goods and changes in inventories" in current year, due to sales of inventories which have been written-down previously.

Note: Variable lease payment is the excess of the minimum lease payments as stated in the relevant lease agreements, which is calculated based on a percentage of turnover of the relevant operation that occupied the premises.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

14 DIRECTORS' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

	Executive directors						Non-executive directors					Independent non-executive directors						
	Isei Nakagawa HK$'000 (Note a)	Isao Sugawara HK$'000	Chak Kam Yuen HK$'000 (Note b)	Takenori Nagashima HK$'000	Shinya Hisanaga HK$'000	Lau Chi Sum, Sam HK$'000 (note c)	Isei Nakagawa HK$'000 (note a)	Yuki Habu HK$'000 (note b)	Akinori Yamashita HK$'000 (note c)	Makoto Fukuda HK$'000 (note e)	Hiroyuki Inohara HK$'000 (note d)	Chan Yi Jen, Candi Anna HK$'000 (note b)	Lo Miu Sheung, Betty HK$'000 (note c)	Chow Chi Tong HK$'000	Hideto Mizuno HK$'000	Law Chi Yan, Joyce HK$'000 (note f)	Shum Wing Ting HK$'000 (note d)	Total HK$'000
For the year ended 31 December 2022																		
Fees	**-**	**-**	**29**	**-**	**-**	**-**	**86**	**-**	**-**	**-**	**46**	**82**	**-**	**200**	**190**	**179**	**5**	**817**
Other emolument																		
Salaries and other benefits	**-**	**1,454**	**489**	**1,666**	**1,151**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,760**
Performance based bonus (Note g)	**-**	**114**	**195**	**86**	**95**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**490**
Contributions to retirement benefit schemes	**-**	**169**	**31**	**149**	**155**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**504**
Total	**-**	**1,737**	**744**	**1,901**	**1,401**	**-**	**86**	**-**	**-**	**-**	**46**	**82**	**-**	**200**	**190**	**179**	**5**	**6,571**
For the year ended 31 December 2021																		
Fees	–	–	70	–	–	16	–	–	–	–	–	190	180	190	180	–	–	826
Other emolument																		
Salaries and other benefits	580	991	1,065	1,676	1,194	290	–	–	–	–	–	–	–	–	–	–	–	5,796
Performance based bonus (Note g)	240	344	245	86	88	–	–	–	–	–	–	–	–	–	–	–	–	1,003
Contributions to retirement benefit schemes	154	94	74	162	165	18	–	–	–	–	–	–	–	–	–	–	–	667
Total	974	1,429	1,454	1,924	1,447	324	–	–	–	–	–	190	180	190	180	–	–	8,292

Notes:

(a) Mr. Isei Nakagawa was re-designated from as Managing Director ("MD") of the Company to non-executive director with effect from 28 May 2021.

(b) Director was resigned/retired during the year ended 31 December 2022.

(c) Director was resigned/retired during the year ended 31 December 2021.

(d) Director was appointed during the year ended 31 December 2022.

(e) Director was appointed during the year ended 31 December 2021.

(f) Director was appointed during the year ended 31 December 2022 and resigned with effect from 1 January 2023.

(g) The performance based bonus is determined by reference to the individual performance of the directors. It is reviewed by the Remuneration Committee and approved by the Board of Directors.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

14 DIRECTORS' EMOLUMENTS (Continued)

The executive directors' emoluments were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments were for their services as directors of the Company or its subsidiaries.

The independent non-executive director's emoluments were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. There is no inducement for directors to join the Group nor compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group.

15 EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2021: two) were directors whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining three (2021: three) individuals were as follows:

	2022 HK$'000	2021 HK$'000
Salaries and other benefits	**4,536**	4,260
Performance based bonus	**326**	133
Contributions to retirement benefit schemes	**321**	318
	5,183	4,711

	2022 No. of employees	2021 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**2**	3
HK$2,000,001 to HK$2,500,000	**1**	–

There is no inducement for five highest paid employee to join the Group nor compensation for the loss of office as an employee in connection with the management of the affairs of any member of the Group.

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15 EMPLOYEES' EMOLUMENTS (Continued)

Other than the emoluments of two directors and three (2021: three) senior management individuals of the Group disclosed in note 14 and above, the emoluments of the remaining four (2021: three) senior management of the Group were within the following bands:

	2022 No. of employees	2021 No. of employees
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**1**	1

16 DIVIDENDS

	2022 HK$'000	2021 HK$'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), in an aggregate amount of HK$5,200,000 (2021: HK$5,200,000) to be paid on or before 28 June 2023, subject to shareholders' approval at the forthcoming annual general meeting on 30 May 2023.

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

17 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 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.

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18 PROPERTY, PLANT AND EQUIPMENT

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost					
At 1 January 2021	1,854,901	708,289	3,359	27,379	2,593,928
Exchange adjustments	46,396	14,915	102	837	62,250
Additions	8,184	18,858	–	138,423	165,465
Transfer	82,014	50,774	–	(132,788)	–
Disposals/write-off	(63,045)	(27,092)	(612)	(44)	(90,793)
At 31 December 2021	**1,928,450**	**765,744**	**2,849**	**33,807**	**2,730,850**
Exchange adjustments	**(109,415)**	**(40,890)**	**(234)**	**(1,106)**	**(151,645)**
Additions	**7,485**	**16,412**	**–**	**70,353**	**94,250**
Transfer	**49,869**	**46,433**	**–**	**(96,302)**	**–**
Disposals/write-off	**(282,578)**	**(45,277)**	**–**	**–**	**(327,855)**
At 31 December 2022	**1,593,811**	**742,422**	**2,615**	**6,752**	**2,345,600**
Depreciation and impairment					
At 1 January 2021	1,395,695	549,312	3,165	–	1,948,172
Exchange adjustments	35,359	11,592	99	–	47,050
Provided for the year	141,558	71,584	183	–	213,325
Eliminated on disposal/write-off	(62,899)	(26,050)	(612)	–	(89,561)
Impairment losses recognised (note 20)	30,227	866	–	–	31,093
At 31 December 2021	**1,539,940**	**607,304**	**2,835**	**–**	**2,150,079**
Exchange adjustments	**(86,564)**	**(32,414)**	**(235)**	**–**	**(119,213)**
Provided for the year	**111,482**	**67,793**	**15**	**–**	**179,290**
Eliminated on disposal/write-off	**(279,647)**	**(42,813)**	**–**	**–**	**(322,460)**
Impairment losses recognised (note 20)	**26,586**	**163**	**–**	**–**	**26,749**
At 31 December 2022	**1,311,797**	**600,033**	**2,615**	**–**	**1,914,445**
Carrying values					
At 31 December 2022	**282,014**	**142,389**	**–**	**6,752**	**431,155**
At 31 December 2021	388,510	158,440	14	33,807	580,771

The property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates:

Building fixtures	Over the expected useful lives of nine years or, where shorter, the term of the relevant lease
Furniture, fixtures and equipment	10% to 25% per annum
Motor vehicles	20% to 25% per annum

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19 RIGHT-OF-USE ASSETS

	Leased properties HK$'000
As at 31 December 2022	
Carrying amount	**2,496,964**
As at 31 December 2021	
Carrying amount	**3,206,344**
For the year ended 31 December 2022	
Depreciation charge	**733,304**
Impairment loss recognised	**1,925**
For the year ended 31 December 2021	
Depreciation charge	**753,963**
Impairment loss recognised	**97,199**

	2022 HK$'000	2021 HK$'000
Expense relating to short-term leases	**4,756**	12,879
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**7,998**	6,726
Variable lease payments not included in the measurement of lease liabilities	**61,644**	70,040
Total cash outflow for leases	**1,141,367**	1,130,831
Additions to right-of-use assets	**173,538**	305,427

The Group leases retail stores, warehouse, office, staff quarters, office equipment and advertising billboards for its operations. Lease contracts are entered into for fixed term of one to twenty years (2021: one to twenty years), but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, following by a lease modification to shorten the lease term, the Group had derecognised right-of-use assets of HK$20,209,000 (2021: HK$91,923,000) and related lease liabilities of HK$40,130,000 (2021: HK$131,441,000), resulting into a gain on lease modification amounting to HK$19,921,000 (2021: HK$39,518,000) recognised in profit or loss.

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19 RIGHT-OF-USE ASSETS (Continued)

The Group regularly entered into short-term leases for staff quarters, office equipment and advertising billboards. As at 31 December 2022 and 31 December 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases entered during the years.

Leases of retail stores are either with only fixed lease payments or contain variable lease payment that are based on 2% to 14% (2021: 2% to 14%) sales and minimum annual lease payment that are fixed over the lease term. Some variable payment terms include cap clauses. The payment terms are common in retail stores in Hong Kong and PRC where the Group operates. The amount of fixed and variable lease payments paid/payable to relevant lessors (excluding those relating to short-term leases and low-value assets) during the year are shown below:

For the year ended 31 December 2022

	Number of premises	**Fixed payments HK$'000**	**Variable payments HK$'000**	**Total payments HK$'000**
Retail stores, warehouse and office without variable lease payments	**32**	**271,964**	**–**	**271,964**
Retail stores with variable lease payments	**98**	**793,518**	**61,644**	**855,162**
	130	**1,065,482**	**61,644**	**1,127,126**

For the year ended 31 December 2021

	Number of premises	Fixed payments HK$'000	Variable payments HK$'000	Total payments HK$'000
Retail stores, warehouse and office without variable lease payments	32	292,986	4,606	297,592
Retail stores with variable lease payments	90	723,539	65,434	788,973
	122	1,016,525	70,040	1,086,565

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

The Group has extension and/or termination options in a number of leases for retail stores (2021: retail stores). These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessors.

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19 RIGHT-OF-USE ASSETS (Continued)

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options in which the Group is not reasonably certain to exercise and (ii) termination options in which the Group is not reasonably certain not to exercise is summarised below:

	Lease liabilities recognised as at 31 December 2022 HK$'000	Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2022 HK$'000	Lease liabilities recognised 31 December 2021 HK$'000	Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2021 HK$'000
Retail stores, warehouse and office – Hong Kong	**2,079,567**	**83,903**	2,595,049	63,480
Retail stores, warehouse and office – PRC	**1,401,761**	**787,887**	1,771,297	880,710

The following table summarised the additional lease liabilities recognised during the year ended 31 December 2022 and 2021 as a result of exercising extension option that the Group was not reasonably certain to exercise:

For the year ended 31 December 2022

	Extension Option exercisable No. of leases	Extension option exercised No. of leases
Retail stores – Hong Kong	**–**	**–**
Additional lease liabilities recognised (HK$'000)		**–**

For the year ended 31 December 2021

	Extension Option exercisable No. of leases	Extension option exercised No. of leases
Retail stores – Hong Kong	3	3
Additional lease liabilities recognised (HK$'000)		3,051

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19 RIGHT-OF-USE ASSETS (Continued)

Lease contracts with termination options exercisable during both years were not identified. In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. No such triggering event is noted for both years.

Restrictions or covenants on leases

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in notes 32 and 41.

20 IMPAIRMENT ASSESSMENT ON PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

The management considered there were impairment indicators of certain stores and hence conducted impairment assessment on the relevant stores, which represents individual cash-generating units for the purpose of impairment assessment. The recoverable amounts of the cash-generating units have been determined based on the higher of fair value less cost of disposal and value in use of the individual stores to which the relevant assets belong.

For the cash-generating units which the recoverable amount was based on value in use, the calculations use cash flow projections based on the latest financial budgets approved by the management covering the unexpired lease terms of the relevant stores with a pre-tax discount rate of 11% to 13% (2021: 10% to 13%). Cash flow projections during the budget period were based on the projected revenue and expected gross margins and the budgeted revenue growths and margins have been determined based on past performance and management's expectations for the future changes in the market.

For the cash-generating units which the recoverable amount was based on fair value less costs of disposal, the fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used. The fair value has been arrived at based on a valuation carried out by Cushman & Wakefield Limited, an independent third party qualified valuer which has appropriate professional qualifications and recent experience in the valuations of similar assets in the relevant locations.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the right-of-use assets included in the cash-generating units are assessed and discounted at the market yield of a range of 4.3% – 5.0% expected by investors for this type of assets. The market rentals are assessed by reference to the rentals achieved in the lettable units of the assets as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar retail stores in Hong Kong and PRC and adjusted to take into account the market expectation form property investors to reflect factors specific to the Group's cash-generating units.

Based on the result of the assessment, management of the Group determined that the recoverable amounts of some cash-generating units are lower than their carrying amounts. The impairment amount has been allocated to each category of the impaired cash-generating units, which mainly comprise property, plant and equipment, and right-of-use assets, such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the allocation, impairment loss of HK$26,749,000 and HK$1,925,000 (2021: HK$31,093,000 and HK$97,199,000), has been recognised against the carrying amounts of property, plant and equipment, and right-of-use assets, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21 INVESTMENT PROPERTIES

The Group leases out retail stores under operating leases with rentals payable monthly. The leases typically run for an initial period of one to fifteen years (2021: one to fifteen years). The leases of retail stores contain variable lease payment that are based on 5.0% to 30.0% (2021: 5.0% to 30.0%) of sales and minimum annual lease payment that are fixed over the lease term.

For the year ended 31 December 2022, cash outflow for leases of HK$93,460,000 (2021: HK$95,182,000) represented the amounts paid for leased properties under sub-leases.

	Leased properties HK$'000
Cost	
At 1 January 2021	640,554
Exchange adjustments	14,399
Additions	27,138
Reclassification to right-of-use assets (Note)	(59,918)
At 31 December 2021	**622,173**
Exchange adjustments	**(37,236)**
Additions	**13,887**
Disposals	**(15,716)**
Reclassification to right-of-use assets (Note)	**(31,270)**
At 31 December 2022	**551,838**
Depreciation	
At 1 January 2021	160,664
Exchange adjustments	3,994
Provided for the year	85,369
Eliminated on reclassification to right-of-use assets (Note)	(1,764)
At 31 December 2021	**248,263**
Exchange adjustments	**(13,757)**
Provided for the year	**68,861**
Write-back on disposals	**(12,508)**
Eliminated on reclassification to right-of-use assets (Note)	**(19,202)**
At 31 December 2022	**271,657**
Carrying values	
As 31 December 2022	**280,181**
At 31 December 2021	373,910

The fair value of the Group's investment properties at 31 December 2022 was HK$1,172,444,000 (2021: HK$1,566,841,000). The fair value has been arrived at based on a valuation carried out by Cushman & Wakefield Limited, an independent third party qualified valuer which has appropriate professional qualifications and recent experience in the valuations of similar properties in the relevant locations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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21 INVESTMENT PROPERTIES (Continued)

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar retail stores in Hong Kong and PRC and adjusted to take into account the market expectation form property investors to reflect factors specific to the Group's investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	2022		2021	
	Carrying amount HK$'000	**Fair value at Level 3 hierarchy HK$'000**	Carrying amount HK$'000	Fair value at Level 3 hierarchy HK$'000
Retail stores located in Hong Kong	**111,125**	**338,460**	153,279	452,920
Retail stores located in PRC	**169,056**	**833,984**	220,631	1,113,921
	280,181	**1,172,444**	373,910	1,566,841

Note: The carrying amount of investment properties of HK$12,068,000 (2021: HK$58,154,000) has been transferred to right-of-use assets because its use has changed as evidenced by the usage of the Group for its own operation.

22 GOODWILL

	HK$'000
Cost	94,838
Impairment	
At 1 January 2021	32,000
Impairment loss recognised	62,838
At 31 December 2021, 1 January 2022 and 31 December 2022	94,838
Carrying values	
As 31 December 2021 and 2022	–

The amount represented goodwill arising from the acquisition of an additional 35% interest in AEON South China (as defined in note 43(a)) in 2008. AEON South China became a wholly-owned subsidiary of the Company subsequent to the additional acquisition. The goodwill was allocated to a group of cash-generating units of AEON South China and had been fully impaired during the year ended 31 December 2021.

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23 EQUITY INSTRUMENTS AT FVTOCI

	2022 **HK$'000**	2021 HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**18,925**	18,982

The listed shares in Hong Kong mainly represents an investment in a fellow subsidiary listed on the stock exchange in Hong Kong of HK$18,769,000 (2021: HK$18,806,000).

The fair value of equity securities have been determined based on the quoted market bid prices available on the stock exchange.

24 PLEDGED BANK DEPOSITS

	2022		2021	
	Non-current **HK$'000**	**Current** **HK$'000**	Non-current HK$'000	Current HK$'000
Bank deposits were pledged for the following purpose:				
As guarantee to:				
– landlords for rental deposits	**22,643**	**1,095**	24,698	3,293
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**–**	**6,690**	–	7,958
	22,643	**7,785**	24,698	11,251

Details of credit risk and impairment assessment are set out in note 41.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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25 DEFERRED TAXATION

The following are the major deferred tax assets/(liabilities) recognised and movements thereon during the current and prior reporting periods:

	Decelerated tax depreciation HK$'000	Provision for staff costs and other expenses HK$'000	Other temporary differences HK$'000	Undistributed profits of subsidiaries HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2021	1,320	38,179	634	(234)	4,686	44,585
Exchange adjustments	103	1,423	–	–	–	1,526
Credited/(charged) to profit or loss	6,576	(14,018)	(634)	234	–	(7,842)
Over-provision of deferred tax asset provided in prior years	–	–	–	–	(4,686)	(4,686)
At 31 December 2021	7,999	25,584	–	–	–	33,583
Exchange adjustments	**(916)**	**(2,339)**	**–**	**–**	**–**	**(3,255)**
Credited/(charged) to profit or loss	**1,190**	**(5,848)**	**–**	**–**	**–**	**(4,658)**
At 31 December 2022	**8,273**	**17,397**	**–**	**–**	**–**	**25,670**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2022 HK$'000	2021 HK$'000
Deferred tax assets	**25,670**	33,583

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25 DEFERRED TAXATION (Continued)

Furthermore, the Group had unused tax losses of HK$1,131,372,000 (2021: HK$908,831,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams for the relevant subsidiary. Included in unrecognised tax losses are losses of HK$376,937,000 (2021: HK$245,357,000) that will expire as follows. Other losses may be carried forward indefinitely.

	2022 **HK$'000**	2021 HK$'000
To be expired by:		
31 December 2023	**69,117**	71,404
31 December 2024	**106,216**	109,730
31 December 2025	**31,280**	32,313
31 December 2026	**30,399**	31,910
31 December 2027	**139,925**	–

At the end of the reporting period, the Group had other deductible temporary difference of HK$892,943,000 (2021: HK$830,965,000). A deferred tax asset has been recognised in respect of deductible temporary difference of HK$109,344,000 (2021: HK$132,207,000). No deferred tax asset has been recognised in respect of the remaining deductible difference of HK$783,599,000 (2021: HK$698,758,000).

26 RECEIVABLES, PREPAYMENTS AND DEPOSITS

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.

The following is an analysis of receivables, prepayments and deposits:

	2022 **HK$'000**	2021 HK$'000
Accounts receivable	**38,876**	31,749
Rental and related deposits paid	**246,757**	237,080
Other receivables, prepayments and other deposits	**87,369**	89,698
	373,002	358,527
Less: Rental and related deposits paid under non-current assets	**(220,507)**	(217,370)
Receivables, prepayments and deposits	**152,495**	141,157

Details of credit risk and impairment assessment are set out in note 41.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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27 INVENTORIES

Inventories represent merchandise held for retail sale.

During the year, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group has written back inventories of HK$3,353,000 (2021: written back inventories of HK$990,000) to their net realisable values and included in "Purchases of goods and changes in inventories".

28 AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (2021: 15 to 35 days). The amounts have an age of 0 to 35 days (2021: 0 to 35 days) since the invoice date and not yet due at the end of the respective reporting periods.

Details of credit risk and impairment assessment are set out in note 41.

29 TIME DEPOSITS

As at 31 December 2022, time deposits represent time deposits denominated in United States Dollars ("USD"), RMB and HKD amounting to HK$19,696,000, HK$236,068,000 and HK$39,828,000, respectively, with an original maturity for more than three months. The average effective interest rates of those time deposits denominated in USD, RMB and HKD are 3.78%, 2.36% and 4.29%, per annum, respectively. The deposits will mature within one year from the end of the reporting period except for the time deposits of HK$6,068,000 which will mature after one year from the end of reporting period (31 December 2021: HK$Nil). Excluding the time deposit of HK$6,068,000, these amounts are classified as current assets.

As at 31 December 2021, time deposits represent time deposits denominated in USD, RMB and HKD amounting to HK$247,000, HK$143,035,000 and HK$142,390,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in USD, RMB and HKD are 0.36%, 2.21% and 0.33%, per annum, respectively. The deposits will mature within one year from the end of the reporting period. Accordingly, these amounts are classified as current assets.

Details of credit risk and impairment assessment are set out in note 41.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

30 BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which range from 0.01% to 5.05% (2021: 0.01% to 2.58%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	2022 **HK$'000**	2021 HK$'000
HKD	**167**	171
USD	**57,383**	12,815
Japanese Yen ("JPY")	**22,341**	34,856
RMB	**23,776**	70,885

Details of credit risk and impairment assessment are set out in note 41.

31 TRADE PAYABLES, OTHER PAYABLES, ACCRUED CHARGES AND OTHER LIABILITIES, AND CONTRACT LIABILITIES

The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period, and an analysis of other payables, accrued charges and other liabilities.

	2022 **HK$'000**	2021 HK$'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
Trade payables	**1,088,346**	1,296,730

The average credit period on purchases of goods is 60 days (2021: 60 days).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

31 TRADE PAYABLES, OTHER PAYABLES, ACCRUED CHARGES AND OTHER LIABILITIES, AND CONTRACT LIABILITIES (Continued)

	2022 **HK$'000**	2021 HK$'000
Accrued expenses and other liabilities	**392,991**	393,860
Accrued staff costs	**254,821**	251,938
Value added tax payables for advance receipts on prepaid store-value cards	**6,229**	51,622
Payables for purchase of property, plant and equipment	**12,287**	11,373
Provision for reinstatement (Note)	**95,428**	96,754
Rental deposits received	**100,155**	114,806
	861,911	920,353
Less: Rental deposits received and other liabilities under non-current liabilities	**(130,200)**	(139,178)
Other payables, accrued charges and other liabilities	**731,711**	781,175

Note: Provision for reinstatement costs relates to the estimated cost to reinstate the stores at the end of the leases. The following is a movement of provision for reinstatement cost during the year:

	HK$'000
At 1 January 2021	92,814
Additional provision	4,529
Utilisation of provision	(959)
Exchange realignments	370
At 31 December 2021	96,754
Additional provision	5,906
Utilisation of provision	(6,229)
Exchange realignments	(1,003)
At 31 December 2022	**95,428**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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31 TRADE PAYABLES, OTHER PAYABLES, ACCRUED CHARGES AND OTHER LIABILITIES, AND CONTRACT LIABILITIES (Continued)

The following is an analysis of contract liabilities:

	2022 **HK$'000**	2021 HK$'000
Advance receipts on prepaid store-value cards	**393,393**	440,067
Deferred revenue	**43,318**	41,457
	436,711	481,524

The contract liabilities represent the Group's obligation to transfer performance obligation to customers for which the Group has received consideration from the customers.

Movements in contract liabilities:

	2022 **HK$'000**	2021 HK$'000
Balance at the beginning of the year	**481,524**	441,548
Decrease in contract liabilities as a result of recognising revenue	**(446,230)**	(414,030)
Increase in contract liabilities as a result of receiving consideration	**447,110**	437,312
Exchange realignments	**(45,693)**	16,694
Balance at the end of the year	**436,711**	481,524

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– Prepaid store-value cards

The Group receives the face value of prepaid store-value cards and these prepaid store-value cards are non-refundable and have no expiration.

– Customer loyalty programmes

The Group grants award credits for customers for sales over certain amount under the Group's customer loyalty scheme. The customers can redeem the award credits as cash to be used in future sales. The award credits have expiration.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

32 LEASE LIABILITIES

	2022 HK$'000	2021 HK$'000
Lease liabilities payable:		
Within one year	**827,036**	833,899
Within a period of more than one year but not more than two years	**662,981**	844,519
Within a period of more than two years but not more than five years	**1,215,042**	1,610,277
Within a period of more than five years	**776,269**	1,077,651
	3,481,328	4,366,346
Less: Amount due for settlement within 12 months shown under current liabilities	**(827,036)**	(833,899)
Amount due for settlement after 12 months shown under non-current liabilities	**2,654,292**	3,532,447

33 AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amounts due to ultimate holding company and fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 60 to 90 days (2021: 60 to 90 days). The amounts have an age of 60 to 90 days (2021: 60 to 90 days) based on the invoice date at the end of the reporting period.

34 SHARE CAPITAL

	Number of shares	HK$'000
Ordinary shares of no par value as at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	260,000,000	115,158

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company at the end of the reporting period is as follows:

	2022 **HK$'000**	2021 HK$'000
Non-current assets		
Property, plant and equipment	**184,831**	233,329
Right-of-use assets	**1,527,382**	1,968,012
Investment properties	**111,125**	153,279
Investments in subsidiaries	**197,137**	197,137
Equity instruments at FVTOCI	**18,925**	18,982
Loan to a subsidiary	**175,471**	122,686
Rental and related deposits paid	**190,675**	187,356
	2,405,546	2,880,781
Current assets		
Inventories	**490,681**	454,260
Receivables, prepayments and deposits	**82,173**	84,430
Amounts due from subsidiaries	**7,254**	9,469
Amounts due from fellow subsidiaries	**47,453**	43,546
Time deposits	**59,523**	181,609
Bank balances and cash	**572,072**	737,339
	1,259,156	1,510,653
Current liabilities		
Trade payables	**549,076**	620,067
Other payables, accrued charges and other liabilities	**427,380**	438,423
Lease liabilities	**601,035**	565,714
Contract liabilities	**49,029**	47,759
Dividend payable	**213**	272
Amount due to ultimate holding company	**27,030**	27,596
Amounts due to fellow subsidiaries	**6,727**	4,071
	1,660,490	1,703,902
Net current liabilities	**(401,334)**	(193,249)
Total assets less current liabilities	**2,004,212**	2,687,532

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2022 HK$'000	2021 HK$'000
Capital and reserves		
Share capital	**115,158**	115,158
Reserves	**317,865**	454,215
Total equity	**433,023**	569,373
Non-current liabilities		
Rental deposits received and other liabilities	**92,658**	88,824
Lease liabilities	**1,478,531**	2,029,335
	1,571,189	2,118,159
Total equity and non-current liabilities	**2,004,212**	2,687,532

The Company's statement of financial position was approved and authorised for issue by the board of directors on 28 March 2023 and is signed on its behalf by:

ISEI NAKAGAWA
Director

TAKENORI NAGASHIMA
Director

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Investment revaluation reserve HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2021	17,444	717,488	734,932
Loss for the year	–	(259,078)	(259,078)
Fair value loss on investments in equity instruments at FVTOCI	(867)	–	(867)
Total comprehensive loss for the year	(867)	(259,078)	(259,945)
Dividends recognised as distribution	–	(20,800)	(20,800)
Unclaimed dividends forfeited	–	28	28
At 31 December 2021	**16,577**	**437,638**	**454,215**
Loss for the year	**–**	**(123,354)**	**(123,354)**
Fair value loss on investments in equity instruments at FVTOCI	**(56)**	**–**	**(56)**
Total comprehensive loss for the year	**(56)**	**(123,354)**	**(123,410)**
Dividends recognised as distribution	**–**	**(13,000)**	**(13,000)**
Unclaimed dividends forfeited	**–**	**60**	**60**
At 31 December 2022	**16,521**	**301,344**	**317,865**

36 CAPITAL COMMITMENTS

	2022 **HK$'000**	2021 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**18,811**	14,455

In addition, the Group was committed at 31 December 2022 to enter into new leases which range from 4 to 15 years that are not yet commenced, the total lease payments under which amounted to HK$90.7 million. (2021: a lease of 9 years with lease payments amounted to HK$37.3 million per annum).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

37 OPERATING LEASING ARRANGEMENTS

The Group as lessor

All of the properties held by the Group for rental purposes have committed licensees for the next one to thirteen years (2021: next one to thirteen years).

Undiscounted lease payments receivable on leases are as follows:

	2022 **HK$'000**	2021 HK$'000
Within one year	**220,588**	249,518
In the second year	**100,215**	137,268
In the third year	**47,048**	63,298
In the fourth year	**20,436**	19,477
In the fifth year	**12,438**	9,866
After five years	**23,536**	13,584
	424,261	493,011

The leases are negotiated for terms ranging from one to thirteen years (2021: one to fifteen years). In addition to the minimum lease payments, the Group is entitled to receive contingent rent based on a fixed percentage of turnover of the licensees in excess of the minimum lease payments as stated in the relevant rental agreements.

38 RETIREMENT BENEFIT SCHEMES

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001 in Hong Kong. Contributions paid or payable for the MPF Schemes for the year amounting to HK$24,551,000 (2021: HK$23,292,000) are charged to the consolidated statement of profit or loss for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF Scheme for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions amounting to HK$3,565,000 (2021: HK$2,810,000) charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK$68,156,000 (2021: HK$77,167,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

39 RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

Relationship	Nature of transaction	2022 HK$'000	2021 HK$'000
Fellow subsidiaries	Commission fee for credit facilities provided to customers	**26,889**	14,914
	Franchise fee	**283**	311
	Trademark fee	**12,063**	7,829
	Other expenses	**17,588**	19,291
	Other income	**7,522**	11,394
	Purchase of goods and property, plant and equipment	**6,000**	8,962
	Interest on lease liabilities	**2,623**	4,075
	Repayment of lease liabilities	**21,451**	18,524
	Management fees and utilities expenses	**21,148**	19,997
	Rental income	**22,692**	21,488
	Sales of coupons	**14,475**	9,418
	Service fee expense	**63,361**	58,358
Ultimate holding company	Royalty expenses	**26,526**	26,071
Non-controlling shareholder of the subsidiary*	Advertising expenses	**–**	1,186
	Interest on lease liabilities	**8,989**	11,657
	Repayment of lease liabilities	**41,018**	38,651
	Management fees and utilities expenses	**13,118**	13,354

* Non-controlling shareholder has significant influence over the subsidiary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

39 RELATED PARTY TRANSACTIONS (Continued)

Outstanding balances as at the end of reporting periods arising from the above transactions with related parties are set out in the consolidated statement of financial position except for the following balances, which are included in other receivables, prepayments and deposits and, lease liabilities:

	2022 **HK$'000**	2021 HK$'000
Amounts due from fellow subsidiaries (included in other receivables, prepayments and deposits)	**4,315**	4,093
Amounts due to fellow subsidiaries (included in lease liabilities)	**27,442**	53,192
Amount due from a non-controlling shareholder of the subsidiary (included in other receivables, prepayments and deposits)	**4,632**	4,959
Amount due to a non-controlling shareholder of the subsidiary (included in lease liabilities)	**109,080**	164,987

Except for the amounts included in lease liabilities, amount due from fellow subsidiaries and a non-controlling shareholder of the subsidiary is unsecured, interest free and has no fixed repayment term.

Compensation of key management personnel

The Group's key management personnel are all directors, details of their remuneration are disclosed in note 14.

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

40 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes lease liabilities disclosed in note 32, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and other reserves.

The Group's management review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt.

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

41 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 **HK$'000**	2021 HK$'000
Financial assets at amortised cost	**1,866,100**	2,260,931
Equity instruments at FVTOCI	**18,925**	18,982
Financial liabilities at amortised cost	**1,897,178**	1,860,869
Lease liabilities	**3,481,328**	4,366,346

(b) Financial risk management objectives and policies

The directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The management manages and monitors these risk exposures to ensure that appropriate measures are implemented in a timely and effective manner.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The directors monitor and manage the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group's audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks in 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

41 FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk management

Certain of the Group's purchases are denominated in foreign currencies other than the functional currencies of the operations to which they relate. They expose the Group to foreign currency risk and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities and intra-group balances at the reporting date is as follows:

	Assets		Liabilities	
	2022 HK$'000	2021 HK$'000	**2022 HK$'000**	2021 HK$'000
HKD	**167**	171	**–**	–
USD	**77,080**	13,062	**13,435**	14,656
JPY	**22,341**	34,856	**19,922**	22,538
RMB	**23,776**	109,857	**–**	–
Intra-group balances				
RMB	**171,054**	132,155	**–**	–

Foreign currency sensitivity

As HKD is pegged to USD, it is assumed that there would be no material currency risk exposure between these two currencies. The directors of the Company considered that the Group's exposures to HKD and USD are limited. Accordingly, no sensitivity to fluctuation in HKD and USD are presented. The Group therefore is exposed to fluctuations in JPY and RMB.

The following table indicates the approximate change in the Group's loss for the year in response to reasonably possible changes in the foreign exchange rates to which the Group have significant exposure at the end of the reporting periods.

	2022			2021		
	Increase/ (decrease) in foreign exchange rates %	**(Decrease)/ increase in loss after tax HK$'000**	**(Decrease)/ increase in other comprehensive loss HK$'000**	Increase/ (decrease) in foreign exchange rates %	(Decrease)/ increase in loss after tax HK$'000	(Decrease)/ increase in other comprehensive loss HK$'000
JPY	**10%**	**(202)**	**–**	10%	(1,029)	–
	(10%)	**202**	**–**	(10%)	1,029	–
RMB	**10%**	**(1,985)**	**(17,105)**	10%	(9,173)	(13,216)
	(10%)	**1,985**	**17,105**	(10%)	9,173	13,216

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

41 FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk management (Continued)

Foreign currency sensitivity (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables remain constant.

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2021.

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk as the Group's bank balances are subject to floating interest rates. The Group analyses its interest rate exposure on a dynamic basis, but the Group did not use floating-to-fixed interest rate swaps in managing its cash flow interest rate risk. However, from time to time, if interest rates fluctuate significantly, appropriate measures would be taken to manage interest rate exposure.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate time deposits and lease liabilities. The management will take appropriate measures to manage interest rate exposure if interest rate fluctuates significantly. The management considers the fair value interest rate risk to the Group is low.

The Group's exposure to interest rates and financial liabilities is detailed in the liquidity risk management section of this note.

Interest rate sensitivity

Sensitivity analysis on bank balances is not presented as the management considers that the Group's exposure to interest rate fluctuation is insignificant.

(e) Other price risk

The Group is exposed to equity price risks through its investments in equity securities. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments. The management will monitor the price movements and take appropriate actions when it is required.

Equity price sensitivity

The sensitivity analysis below have been determined based on the exposure to equity price risks in respect of equity instruments at FVTOCI at the reporting date. If the prices of the equity instruments at FVTOCI had been 5% (2021: 5%) higher/lower, while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$946,000 (2021: HK$949,000) for the Group, as a result of the changes in fair value of equity instruments at FVTOCI.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

41 FINANCIAL INSTRUMENTS (Continued)

(f) Credit risk and impairment assessment

The carrying amounts of pledged bank deposits, rental deposits, other receivables, amounts due from fellow subsidiaries, time deposits and bank balances best represent the maximum exposure to credit risk. The Group has no significant concentrations of credit risk with exposure spread over a number of counterparties and receivables represent mainly credit card receivables from finance companies.

Credit card receivables from financial institutions

Retail sales are mainly on a cash basis, either in cash, debit card, credit card or electronic payment methods. Where transactions are conducted other than on a cash basis, the Group practices stringent credit reviews. The Group performs impairment assessment using lifetime ECL individually for debtors with significant balance and collectively. The Group considered the credit risk on the receivables is limited because counterparties are banks/financial institutions with high external credit ratings assigned by international credit rating agencies. Therefore, the allowance for credit risk of trade other receivables was immaterial.

Amounts due from fellow subsidiaries

The credit terms for the amounts due from fellow subsidiaries are made in accordance with the relevant agreements and there are no significant overdue debts as at the end of the reporting period. The Group performs impairment assessment using lifetime ECL for trade-related amount due from a fellow subsidiary, which is a financial institution in Hong Kong, and 12m ECL for other non-trade related balances individually. The Group considered all the counterparties have a low risk of default and do not have any material past-due amounts. Therefore, the allowance for credit risk of amounts due from fellow subsidiaries was immaterial and no provision was made.

Other receivables and rental deposits

The Group makes periodic individual assessment on 12m ECL of other receivables and rental deposits based on historical settlement records, past experience and external credit ratings, if any. The Group believes that there are no significant increase in credit risk of these amounts since initial recognition. The Group assessed the allowance for credit risk of other receivables and rental deposits was immaterial and no provision was made.

Pledged bank deposits, time deposits and bank balances

The credit risk on pledged bank deposits, time deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for pledged bank deposits time deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. The relevant 12m ECL is considered to be immaterial and no provision was made.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

41 FINANCIAL INSTRUMENTS (Continued)

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, working capital and banking facilities.

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 (2021: HK$461,343,000) 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 next twelve months from 31 December 2022.

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period.

	Effective interest rate %	6 months or less HK$'000	6 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows amount HK$'000	Carrying amount HK$'000
2022							
Lease liabilities	**2.32% – 7.99%**	**507,262**	**504,452**	**2,269,768**	**696,937**	**3,978,419**	**3,481,328**
Non-interest bearing financial liabilities		**1,828,858**	**13,570**	**52,176**	**2,574**	**1,897,178**	**1,897,178**
		2,336,120	**518,022**	**2,321,944**	**699,511**	**5,875,597**	**5,378,506**
2021							
Lease liabilities	2.1% – 7.38%	514,785	516,585	3,608,826	1,501,280	6,141,476	4,366,346
Non-interest bearing financial liabilities		1,765,376	20,849	74,169	475	1,860,869	1,860,869
		2,280,161	537,434	3,682,995	1,501,755	8,002,345	6,227,215

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

41 FINANCIAL INSTRUMENTS (Continued)

(h) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped under Level 1 based on the degree to which the fair value is observable.

	Level 1	
	2022	2021
	HK$'000	HK$'000
Equity instruments at FVTOCI		
Listed equity securities	**18,925**	18,982

There were no transfers between levels in both years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

42 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable HK$'000	**Lease liabilities** HK$'000	**Total** HK$'000
At 1 January 2021	295	4,870,646	4,870,941
Financing cash flows	(20,795)	(1,016,525)	(1,037,320)
Non-cash changes			
New leases entered/leases modified	–	281,341	281,341
Lease early terminated	–	(131,441)	(131,441)
Interest on lease liabilities	–	283,649	283,649
Dividends recognised as distribution	20,800	–	20,800
Unclaimed dividends forfeited	(28)	–	(28)
Exchange realignment	–	78,676	78,676
At 31 December 2021	**272**	**4,366,346**	**4,366,618**
Financing cash flows	**(12,999)**	**(1,065,482)**	**(1,078,481)**
Non-cash changes			
New leases entered/leases modified	**–**	**163,708**	**163,708**
Lease early terminated	**–**	**(40,130)**	**(40,130)**
Interest on lease liabilities	**–**	**236,545**	**236,545**
Dividends recognised as distribution	**13,000**	**–**	**13,000**
Unclaimed dividends forfeited	**(60)**	**–**	**(60)**
Exchange realignment	**–**	**(179,659)**	**(179,659)**
At 31 December 2022	**213**	**3,481,328**	**3,481,541**

43 PARTICULARS OF SUBSIDIARIES OF THE COMPANY

(a) General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting periods are set out below:

Name	Form of business structure	Place of registration or operation principal place of business	Paid up registered/ordinary share capital	Proportion of ownership interest directly held by the Company	Proportion of voting power held by the Company	Proportion of ownership interest held by a non-controlling interest	Proportion of voting power held by a non-controlling interest	Loss allocated to a non-controlling interest		Accumulated non-controlling interest		Principal activities
				2022 & 2021	2022 & 2021	2022 & 2021	2022 & 2021	**2022 HK$'000**	2021 HK$'000	**2022 HK$'000**	2021 HK$'000	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB RMB228,690,000 (2021: RMB228,690,000)	65%	65%	35%	34%	**(4,844)**	(33,234)	**102,148**	119,245	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB RMB212,800,000 (2021: RMB212,800,000)	100%	100%	–	–	**–**	–	**–**	–	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2021: HK$1,000)	100%	100%	–	–	**–**	–	**–**	–	Inactive

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

43 PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interest

Summarised financial information in respect of Guangdong AEON that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2022 HK$'000	2021 HK$'000
Current assets	**1,184,860**	1,361,152
Non-current assets	**826,468**	1,086,569
Current liabilities	**1,189,799**	1,376,787
Non-current liabilities	**523,025**	722,696
Equity attributable to owners of the Company	**196,356**	228,992
Non-controlling interest	**102,148**	119,246
Revenue	**4,119,256**	4,048,304
Expenses	**4,133,096**	4,143,259
Loss for the year	**(13,840)**	(94,955)
Loss attributable to owners of the Company	**(8,996)**	(61,721)
Loss attributable to a non-controlling interest	**(4,844)**	(33,234)
Loss for the year	**(13,840)**	(94,955)
Other comprehensive (loss)/income attributable to owners of the Company	**(23,640)**	10,222
Other comprehensive (loss)/income attributable to a non-controlling interest	**(12,254)**	5,504
Other comprehensive income for the year	**(35,894)**	15,726

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FOR THE YEAR ENDED 31 DECEMBER 2022

43 PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interest (Continued)

	Year ended	
	2022 **HK$'000**	2021 HK$'000
Total comprehensive loss attributable to owners of the Company	**(32,636)**	(51,499)
Total comprehensive loss attributable to a non-controlling interest	**(17,098)**	(27,730)
Total comprehensive loss for the year	**(49,734)**	(79,229)
Net cash inflow from operating activities	**251,152**	309,144
Net cash (outflow)/inflow from investing activities	**(184,622)**	4,207
Net cash outflow from financing activities	**(240,281)**	(235,995)
Net (decrease)/increase in cash and cash equivalents	**(173,751)**	77,356

FINANCIAL SUMMARY

THE GROUP

	For the year ended 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
RESULTS					
Revenue	9,675,891	9,493,774	9,961,893	9,554,854	**9,571,321**
Loss before tax	(23,259)	(167,955)	(20,249)	(489,904)	**(219,518)**
Income tax expense	(19,718)	(21,032)	(9,987)	(13,293)	**(5,198)**
Loss for the year	(42,977)	(188,987)	(30,236)	(503,197)	**(224,716)**

	At 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	4,387,746	8,377,450	8,343,744	7,454,051	**6,037,518**
Total liabilities	(2,809,563)	(7,471,166)	(7,494,112)	(7,131,361)	**(5,935,644)**
	1,578,183	906,284	849,632	322,690	**101,874**
Equity attributable to:					
Owners of the Company	1,441,047	773,532	702,656	203,444	**(274)**
Non-controlling interest	137,136	132,752	146,976	119,246	**102,148**
	1,578,183	906,284	849,632	322,690	**101,874**