**AEON STORES (HONG KONG) CO., LIMITED**
**永旺(香港)百貨有限公司**
(Incorporated in Hong Kong with limited liability)
(Stock Code: 984)

**2023 ANNUAL RESULTS**

The Board of Directors (the "Board") of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the results of the Company and its subsidiaries (the "Group" or "AEON") for the year ended 31 December 2023 together with comparative figures for the previous year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

| | NOTES | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|---|
| Revenue | 3 | **8,692,870** | 9,571,321 |
| Other income | 5 | **483,092** | 483,692 |
| Investment income | | **26,137** | 22,215 |
| Interest income from rental deposits | | **11,215** | 10,802 |
| Purchases of goods and changes in inventories | | **(6,154,497)** | (6,750,962) |
| Staff costs | | **(1,013,050)** | (1,100,476) |
| Depreciation of investment properties | | **(65,878)** | (68,861) |
| Depreciation of property, plant and equipment | | **(147,012)** | (179,290) |
| Depreciation of right-of-use assets | | **(702,484)** | (733,304) |
| Lease expenses | | **(74,685)** | (73,253) |
| Other expenses | 6 | **(1,062,914)** | (1,122,805) |
| Pre-operating expenses | | **(3,903)** | (2,866) |
| Other gains and losses | 7 | **14,505** | (39,186) |
| Interest on lease liabilities | | **(188,676)** | (236,545) |
| Loss before tax | | **(185,280)** | (219,518) |
| Income tax expense | 8 | **(2,522)** | (5,198) |
| Loss for the year | | **(187,802)** | (224,716) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(188,659)** | (219,872) |
| Non-controlling interest | | **857** | (4,844) |
| | | **(187,802)** | (224,716) |
| Loss per share (basic and diluted) | 10 | **(72.56)** **HK Cents** | (84.57) HK Cents |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2023**

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss for the year | **(187,802)** | (224,716) |
| **Other comprehensive income / (loss)** | | |
| *Item that will not be reclassified to profit or loss:* | | |
| Fair value gain / (loss) on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”) | **1,827** | (56) |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences arising on translation of operations outside Hong Kong | **62** | 16,896 |
| Other comprehensive income for the year, net of income tax | **1,889** | 16,840 |
| Total comprehensive loss for the year | **(185,913)** | (207,876) |
| Total comprehensive (loss) / income for the year attributable to: | | |
| Owners of the Company | **(187,076)** | (190,778) |
| Non-controlling interest | **1,163** | (17,098) |
| | **(185,913)** | (207,876) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AT 31 DECEMBER 2023

| | NOTES | **2023** | 2022 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| **Non-current Assets** | | | |
| Property, plant and equipment | | **399,945** | 431,155 |
| Right-of-use assets | | **2,312,166** | 2,496,964 |
| Investment properties | | **278,725** | 280,181 |
| Equity instruments at FVTOCI | | **20,752** | 18,925 |
| Pledged bank deposits | | **13,744** | 22,643 |
| Time deposits | | **6,801** | 6,068 |
| Deferred tax assets | | **23,727** | 25,670 |
| Rental and related deposits paid | | **157,200** | 220,507 |
| | | **3,213,060** | 3,502,113 |
| **Current Assets** | | | |
| Inventories | | **837,475** | 892,697 |
| Receivables, prepayments and deposits | 11 | **212,629** | 152,495 |
| Amounts due from fellow subsidiaries | | **76,045** | 59,025 |
| Pledged bank deposits | | **90,164** | 7,785 |
| Time deposits | | **362,484** | 289,524 |
| Bank balances and cash | | **787,149** | 1,133,879 |
| | | **2,365,946** | 2,535,405 |
| **Current Liabilities** | | | |
| Trade payables | 12 | **1,192,958** | 1,088,346 |
| Other payables, accrued charges and other liabilities | | **724,141** | 731,711 |
| Lease liabilities | | **676,027** | 827,036 |
| Contract liabilities | | **398,404** | 436,711 |
| Dividend payable | | **206** | 213 |
| Amount due to ultimate holding company | | **24,567** | 27,030 |
| Amounts due to fellow subsidiaries | | **33,165** | 39,918 |
| Tax Payables | | **188** | 187 |
| | | **3,049,656** | 3,151,152 |
| **Net Current Liabilities** | | **(683,710)** | (615,747) |
| **Total Assets Less Current Liabilities** | | **2,529,350** | 2,886,366 |
| **Non-current Liabilities** | | | |
| Rental deposits received and other liabilities | | **91,010** | 130,200 |
| Lease liabilities | | **2,532,767** | 2,654,292 |
| | | **2,623,777** | 2,784,492 |
| **Total (Deficit) / Equity** | | **(94,427)** | 101,874 |
| **Capital and Reserves** | | | |
| Share capital | | **115,158** | 115,158 |
| Reserves | | **(312,896)** | (115,432) |
| Deficit attributable to owners of the Company | | **(197,738)** | (274) |
| Non-controlling interest | | **103,311** | 102,148 |
| **Total (Deficit)/Equity** | | **(94,427)** | 101,874 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2023

### 1. BASIS OF PREPARATION

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

The financial information relating to the years ended 31 December 2023 and 2022 included in these preliminary announcements of annual results for the years ended 31 December 2023 and 2022 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows.

The Company has delivered the consolidated financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2023 in due course.

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

On the strength of the undertaking from AEON Co., Ltd. to provide support to the Company from time to time as and when necessary, the directors, after due consideration of the Group's plans and measures, are of the opinion that the Group is able to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2023. Accordingly, the directors consider it is appropriate to prepare the consolidated financial statements on a going concern basis and there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

### 2. APPLICATION OF AMENDMENTS TO HKFRSs

#### *(i) Amendments to HKFRSs that are mandatorily effective for the current year*

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for preparation of the financial statements:

| | |
|---|---|
| HKFRS 17 | *Insurance contracts* |
| Amendments to HKAS 8 | *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates* |
| Amendments to HKAS 1 | *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies* |
| Amendments to HKAS 12 | *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction* |

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

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

***(ii) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism***

In June 2022, the Hong Kong SAR Government (the "Government") gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will come into effect from 1 May 2025 (the "Transition Date"). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund ("MPF") scheme to reduce the long service payment ("LSP") in respect of an employee's service from the Transition Date (the abolition of the "offsetting mechanism"). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its LSP liability and has applied the above HKICPA guidance retrospectively. This change in accounting policy did not have material impact on the opening balance of equity at 1 January 2023, and the cash flows and earnings per share for the year ended 31 December 2023. With reference to the assessment by an external specialist engaged by the Group, there is no material financial statement impact for the years ended 31 December 2022 and 31 December 2023.

## 3. REVENUE

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

(i) Disaggregation of revenue from contracts with customers

| | **For the year ended 31 December 2023** | | |
|---|---|---|---|
| | **Hong Kong** | **Mainland China** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** |
| Direct sales | **3,842,063** | **4,324,963** | **8,167,026** |
| Income from concessionaire sales | **298,804** | **227,040** | **525,844** |
| | **4,140,867** | **4,552,003** | **8,692,870** |

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

(ii) Performance obligations for contracts with customers

Direct sales

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

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

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

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.

## 3. REVENUE– continued

(ii) Performance obligations for contracts with customers – continued

Income from concessionaire sales

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

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

As at 31 December 2023 and 2022, the remaining performance obligations (unsatisfied or partially unsatisfied) are part of contracts that have original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## 4. OPERATING SEGMENTS

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

**Segment revenues and results**

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

For the year ended 31 December 2023

| | Hong Kong | Mainland China | Elimination | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Segment revenue - external | 4,140,867 | 4,552,003 | - | 8,692,870 |
| Inter-segment sales | - | 6,591 | (6,591) | - |
| | 4,140,867 | 4,558,594 | (6,591) | 8,692,870 |
| Segment loss | (149,954) | (61,463) | - | (211,417) |
| Investment income | | | | 26,137 |
| Loss before tax | | | | (185,280) |

## 4. OPERATING SEGMENTS – continued

**Segment revenues and results** – continued

For the year ended 31 December 2022

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

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.

Inter-segment revenue is charged at cost.

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

## 5. OTHER INCOME

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Rental income from investment properties | **331,832** | 347,056 |
| Government grants | **751** | 28,990 |
| Management fee and other income from sub-leases | **64,578** | 63,572 |
| Platform collaboration income | **45,708** | - |
| Others | **40,223** | 44,074 |
| | **483,092** | 483,692 |

During the year, the Group recognised government grants of HK$ Nil (2022:HK$26,400,000) 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$751,000 (2022:HK$ 2,590,000) relating to subsidies granted by municipal governments in Mainland China.

## 6. OTHER EXPENSES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Advertising, promotion and selling expenses | **295,979** | 329,068 |
| Maintenance, repair and building management fees | **355,104** | 369,252 |
| Utilities expenses | **155,680** | 164,036 |
| Administrative expenses | **224,661** | 211,369 |
| Others expenses | **31,490** | 49,080 |
| | **1,062,914** | 1,122,805 |

## 7. OTHER GAINS AND LOSSES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Exchange gain / (loss), net | **6,116** | (25,534) |
| Impairment loss recognised in respect of property, plant and equipment | **(2,186)** | (26,749) |
| Impairment loss recognised in respect of right-of-use assets | **-** | (1,925) |
| Loss on disposal/written off of property, plant and equipment | **(2,456)** | (4,899) |
| Gain on lease modification | **13,031** | 19,921 |
| | **14,505** | (39,186) |

## 8. INCOME TAX EXPENSE

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| The charges comprise: | | |
| Current tax | | |
| PRC withholding tax | **476** | 540 |
| | **476** | 540 |
| Deferred tax | | |
| Current year | **2,046** | 4,658 |
| Income tax expense for the year | **2,522** | 5,198 |

No provision for Hong Kong Profits Tax is made as the Group has sustained a loss for both years.

Under the Law of the People’s Republic of China (“PRC”) on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Mainland China subsidiaries is 25% for both years.

Under the EIT Law of the PRC, withholding tax is imposed on interest income received from Mainland China subsidiaries from 1 January 2008 onwards.

## 9. DIVIDENDS

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Final dividend paid for 2022 of 2 HK cents (2022: 2 HK cents for 2021) per ordinary share | **5,200** | 5,200 |
| Interim dividend paid for 2023 of 2 HK cents (2022: 3 HK cents for 2022) per ordinary share | **5,200** | 7,800 |
| | **10,400** | 13,000 |

The Board of Directors does not recommend the payment of any final dividend for the year ended 31 December 2023 (2022: 2 HK cents).

## 10. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the year attributable to owners of the Company of HK$188,659,000 (2022: HK$219,872,000) and on 260,000,000 (2022: 260,000,000) ordinary shares in issue during the year.

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

## 11. ACCOUNTS RECEIVABLES

The Group's accounts receivables arise from retail sales transactions settled by credit cards or other electronic payment methods. The average settlement period for the proceeds receivable from those credit cards and other electronic payments service providers is 10 days. Based on the ageing of accounts receivable as determined based on invoice date, HK$46,115,000 (2022: HK$38,470,000) is due within 30 days. There are no significant overdue balances of those accounts receivable at the end of reporting period and no default is expected.

## 12. TRADE PAYABLES

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

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 60 days | **951,705** | 930,506 |
| 61 to 90 days | **139,888** | 63,945 |
| Over 90 days | **101,365** | 93,895 |
| | **1,192,958** | 1,088,346 |

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 May 2024 to 27 May 2024 (both days inclusive), for the purpose of determining Shareholders' entitlement to attend and vote at the annual general meeting for 2024 ("AGM"), during which period no transfers of Shares will be registered. In order to qualify for the attending and voting at the AGM, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 21 May 2024.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In 2023, the global economy experienced moderate growth amid inflation and geopolitical tensions, indicating that economies around the world are undergoing adjustment and recovery. However, the Group's business was affected by the overall sluggishness of trade and investment activity, as well as the weak economic recovery in Hong Kong and Mainland China, with the pace of rebound slower than expected. In light of this, the Group actively adjusted its business strategies and implemented a series of reforms to address market changes and challenges.

### Hong Kong Operations

In 2023, Hong Kong's GDP growth rebounded to 3.2% from a negative figure in the previous year, and the value of total retail sales also increased by 16.2%, heralding a good start to the economic recovery. However, the macroenvironment remained complex and volatile. The reopening of the border at the beginning of the year did not bring in the expected large number of tourists to Hong Kong and related consumption. This, together with the outbound travel frenzy among Hong Kong citizens, has resulted in subdued local commercial activities. As part of the initiatives to stimulate local consumption, the government launched the Consumption Voucher Scheme in July, which temporarily boosted the Group's sales performance in the second half of the year. However, Mainland China's low prices, wide product variety, good services and convenient transportation attracted many Hong Kong citizens to travel to Shenzhen to shop and spend. Such an increase in "northbound" travel resulted in a huge deficit in "northbound" and "southbound" visitors during the year, which dealt a heavy blow to the local retail and catering industries. The Group's business performance inevitably suffered and the annual results were not as encouraging as last year.

In terms of store network, the Group continued to promote its small specialty store business and opened a new Daiso Japan store in Wong Tai Sin, offering products that articulate "high quality, diversity and uniqueness". In June, the Group opened two "KOMEDA'S Coffee" branches in Tuen Mun and Tsim Sha Tsui to provide customers with "the most relaxing and leisurely place" to enjoy the great taste of Nagoya. Such a move has also helped to accelerate the development of AEON Hong Kong's specialty restaurant chain business. In addition, the Group made several new endeavours during the year. Aside from opening a pop-up store in Mong Kok, it introduced new tenants such as "SUKIYA" and "GYU SHIGE", in the hope of attracting more customers with brand new impressions and experiences and improving business performance.

With the Group's efforts to strategically strengthen the promotion of product categories with outstanding performance, sales of travel-related, health-related, and cosmetic products increased significantly. The Group also continued to increase the number of directly imported product categories and the proportion of its private brand merchandise, including TOPVALU, HÓME CÓORDY and PEACE FIT COOL and WARM, in order to reduce procurement costs and improve gross profit margin.

**BUSINESS REVIEW**– continued

**Hong Kong Operations**– continued

During the year, the Group optimised its supplier selection criteria and saved procurement costs. It also upgraded the AEON App by adding the AEON β membership system and improving the original design and services to create a better user experience, and launched the Net Super online supermarket Hong Kong Island, Kowloon and the New Territories (with the fastest delivery time of 5 hours) to enhance the performance of the online business. In terms of operation and management, with the help of "Mobile Assistant", the Group strengthened back-end operations and support, streamlined daily work processes and improved the work efficiency of employees.

During the year under review, revenue from the Group's Hong Kong operations decreased by 9.7% to HK$4,140.9 million (2022: HK$4,585.3 million). The segment result recorded a loss of HK$149.9 million during the year (2022: loss of HK$124.2 million).

**Mainland China Operations**

Although the pandemic that lasted for several years finally subsided, the annual growth rate of the Mainland China economy did not recover as strongly as anticipated in 2023, mainly due to the severe recession in the real estate market, which has affected many industries and caused the overall economy to struggle. As the labour market has deteriorated, Chinese citizens have become more cautious in their consumption. Against the backdrop of weak export and domestic demand, GDP was 5.2% and total retail sales of consumer goods climbed by 7.2% year-on-year in 2023, indicating that the market is in a "weak recovery" phase.

During the year, the Group continued to adjust its operating network and reviewed the sales performance of its stores. A number of stores, such as Guangda Store in Guangzhou and Huizhou Store, achieved satisfactory results after extensive revitalisation and renovation. The Group also opened three stores in the GBA, including AEON Guangzhou Zhongshansi Road Store, AEON Guangzhou Nansha Yuefangcheng Store and AEON Zhuhai Shizimen Store.

Revenue from the Mainland China operations for the year was HK$4,552.0 million (2022: HK$4,986.0 million). During the year, the Mainland China business recorded a loss of HK$61.5 million (2022: loss of HK$117.5 million).

**PROSPECTS**

**Hong Kong Operations**

With slow economic growth and the gradual market recovery in 2023, global economic conditions and Hong Kong's business environment are expected to improve. However, persistently high interest rates and asset market price adjustments may continue to affect the local economy. Given the high cost of living, consumer sentiment will remain rational and cautious. The preference of travelers visiting Hong Kong for cultural and experiential travel rather than shopping, and the Hong Kong public's penchant for outbound travel rather than staying and spending in Hong Kong, will also pose a downside risk to the prospects of the local retail industry.

Although the Hong Kong Tourism Board continued its "Night Vibes Hong Kong" programme last year and distributed 200,000 "Hong Kong Night Treats" dining vouchers at the end of last year and in January 2024, this is expected to provide only a short-term boost to retail and catering companies. The Group's operations will still face many challenges in 2024.

**PROSPECTS**– continued

**Hong Kong Operations**– continued

In view of this, the Group has formulated various strategies to respond to the situation. In view of the current business performance, the Group will continue to: 1) increase the proportion of its own brands such as TOPVALU and HÓME CÓORDY; 2) leverage the advantages of the AEON Japan Group and various channels to introduce more well-known Japanese brands to Hong Kong stores, while expanding the range of products imported directly from Japan and Southeast Asia; 3) strengthen the development of Living PLAZA by AEON, Daiso Japan, Mono Mono and KOMEDA'S Coffee in order to give full play to the Group’s synergies and increase the overall profit margin more effectively; and 4) further expand Net Super online business to enhance the competitiveness of online businesses.

In terms of internal management, the Group will continue to review the workflow and performance of each division to eliminate unnecessary procedures so as to make more effective use of resources and enhance operational efficiency and productivity. In addition, the Group will continue to promote digital transformation, such as expanding the application of Electronic Price Tag, Self-service Checkout, "POS Express" and High-Speed Cash Recycler, with the support of "Mobile Assistant" and the delivery service of AEON App, to simplify the daily and back-end work of the stores, while providing customers with a more convenient and comfortable shopping experience.

In the coming year, the Group is expected to complete the upgrading and renovation of two stores, and open one AEON STYLE store, three KOMEDA'S Coffee branches and several Daiso Japan stores to expand its operating network in Hong Kong.

**Mainland China Operations**

Consumer confidence has been further undermined by the ongoing real estate crisis and high youth unemployment rate in Mainland China. The People's Bank of China has lowered the reserve requirement ratio and reduced the re-lending interest rate for the rural sector and small businesses, which will help consolidate and strengthen the economic recovery and further promote economic development, the national economy is expected to improve gradually in 2024.

In the coming year, the Group will improve its performance and achieve growth through four major policies: 1) Promote digital transformation. The Group will improve efficiency and revenue by implementing different management for different stores. At the same time, the Group will launch various offers and initiatives on its online platforms to improve its online and offline sales. 2) Implement product reform. The Group will optimise the existing supply chain to reduce procurement costs, while increasing the proportion of products from its own brands such as TOPVALU and focusing on promoting products with strong sales performance to improve profitability. 3) Reform store format. The Group will create a new integrated department store format and reform the operating model of community food supermarkets to provide better services and better meet customer needs with a new look, thereby enhancing the Group's competitiveness. 4) Improve internal management. The Group will focus on personnel training and management while reviewing overall income and expenses from various aspects, and will reform its revenue structure and improve performance through a series of cost reduction and efficiency improvement measures.

The Group plans to open three new AEON stores in the GBA in the coming year and will continue to tap the expansion opportunities in this region.

**PROSPECTS**– continued

**GROUP**

Under the 2024 investment plan, the total expenditure for new store openings and store renovations is estimated to be approximately HK$160.0 million.

Save as mentioned above or otherwise disclosed, there have been no material events affecting the Group's business from 31 December 2023 up to the date of authorisation for the release of these consolidated financial statements.

**FINANCIAL REVIEW**

In the year 2023, the Group's revenue decreased by 9.2% year-on-year to HK$8,692.9 million (2022: HK$$9,571.3 million). Gross profit margin dropped 0.3% to 29.2% (2022: 29.5%).

As for other income, income derived from sub-leases and others income increased by HK$27.6 million (2022: decreased by HK$34.9 million), contributed by the Platform collaboration income in the year. However, government grants received decreased by HK$28.2 million to HK$0.7 million (2022: HK$28.9 million). Other income resulted in an overall decrease by 0.1% as compared with last year.

For operating expenses during the year under review, the Group's staff cost decreased by 7.9% and its ratio to revenue increased slightly to 11.7% (2022: 11.5%). Expenses related to leases decreased by 7.2% and the ratio of expenses to revenue increased to 11.9% (2022: 11.6%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, decreased by 5.3% year-on-year and the ratio of other expenses to revenue was 12.2% (2022: 11.7%).

Included in other gains and losses, amongst others, was exchange gain of HK$6.1 million (2022: exchange loss of HK$25.5 million). In addition, impairment loss in respect of property, plant and equipment of HK$2.2 million (2022: HK$26.7 million) and impairment loss in respect of right-of-use assets of HK$ Nil million (2022: HK$1.9 million) were recognized in the year.

Due to the above changes, loss attributable to owners of the Company for the year was HK$188.7 million (2022: loss of HK$219.9 million), representing a decrease of HK$31.2 million.

The Group's adjusted EBITDA[1] for the year was loss of HK$157.8 million (2022: loss of HK$60.8 million), increased by HK$97.0 million mainly due to the decrease in revenue.

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 and does not recommend a final dividend (2022: HK$0.02 per share) for the year ended 31 December 2023. Together with the interim dividend of HK$0.02 (2022: HK$0.03) per share paid in the year, total dividends for the year were HK$0.02 (2022: HK$0.05) per share.

During the year, capital expenditure for opening new stores and store renovation in Hong Kong and Mainland China and the upgrade of information technology systems amounted to HK$110.1 million.

The Group also entered into new lease agreements and lease modifications in the year and recognized additional right-of-use assets of HK$574.6 million (2022: HK$173.5 million).

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK$1,149.6 million as at 31 December 2023 (2022: HK$1,423.4 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$97.2 million (2022: HK$23.7 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$6.7 million (2022: HK$6.7 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group’s total lease liabilities as at 31 December 2023 amounted to HK$3,208.8 million (2022: HK$3,481.3 million), of which HK$676.0 million (2022: HK$827.0 million) is payable within one year. The Group’s lease liabilities to equity ratio as at 31 December 2023 (defined as the total lease liabilities divided by total (deficit) / equity) was -3398% (2022: 3417%).

As at 31 December 2023, the Group’s current liabilities exceeded its current assets by HK$683.7 million (2022: net current liabilities of HK$615.8 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.

Note 1 Management considered that the Adjusted EBITDA reflected more properly the Groups’ earnings from its operations.

| **Reconciliation of Adjusted EBITDA** | **FY2023** | **FY2022** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Loss for the year | (187,802) | (224,716) |
| *Adjusting items for EBITDA* | | |
| Income tax expenses | 2,522 | 5,198 |
| Depreciation of investment properties | 65,878 | 68,861 |
| Depreciation of property, plant and equipment | 147,012 | 179,290 |
| Depreciation of rights-of-use assets | 702,484 | 733,304 |
| Interest on lease liabilities | 188,676 | 236,545 |
| Investment income | (26,137) | (22,215) |
| Interest income from rental deposits | (11,215) | (10,802) |
| Other gain and losses | (14,505) | 39,186 |
| *Items for Adjusted EBITDA* | | |
| Repayment of lease liabilities (included in consolidated cash flow statement) * | (836,048) | (828,937) |
| Interest on lease liabilities* | (188,676) | (236,545) |
| **Adjusted EBITDA disclosed** | (157,811) | (60,831) |

* The total of interest on lease liabilities and repayment of lease liabilities represents the rental payment as stated in the lease agreements. Both items are classified as cash flows under financing activities instead of operating activities.

## HUMAN RESOURCES

As at 31 December 2023, the Group had approximately 5,400 full-time and 3,800 part-time employees in Hong Kong and Mainland China. Under the "Everything we do, we do for our customers" credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build AEON into a brand that benefits all customers.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the year ended 31 December 2023 and up to the date of this announcement.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2023 with the code provisions of the Corporate Governance Code contained in Appendix C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, the Company confirms that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2023.

Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2023 with management.

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

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

## PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report for the year ended 31 December 2023 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

By order of the Board of
**AEON Stores (Hong Kong) Co., Limited**
**Takenori NAGASHIMA**
*Managing Director*

Hong Kong, 28 March 2024

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