AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2021 Annual Report

Stock Code: 984

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. SUGAWARA Isao *(Managing Director)*
Mr. CHAK Kam Yuen
Mr. NAGASHIMA Takenori
Mr. HISANAGA Shinya

Non-executive Directors

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

Independent Non-executive Directors

Ms. CHAN Yi Jen Candi Anna
Mr. CHOW Chi Tong
Mr. MIZUNO Hideto
Ms. LAW Chi Yan Joyce

NOMINATION COMMITTEE

Mr. NAKAGAWA Isei *(Chairman)*
Ms. CHAN Yi Jen Candi Anna
Mr. CHOW Chi Tong
Mr. MIZUNO Hideto
Ms. LAW Chi Yan Joyce

REMUNERATION COMMITTEE

Ms. CHAN Yi Jen Candi Anna *(Chairman)*
Mr. NAKAGAWA Isei
Mr. CHOW Chi Tong
Mr. MIZUNO Hideto
Ms. LAW Chi Yan Joyce

AUDIT COMMITTEE

Mr. CHOW Chi Tong *(Chairman)*
Mr. NAKAGAWA Isei
Ms. CHAN Yi Jen Candi Anna
Mr. MIZUNO Hideto
Ms. LAW Chi Yan Joyce

COMPANY SECRETARY

Mr. CHAN Kwong Leung Eric

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

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
Level 54, Hopewell Centre
183 Queen's Road East
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

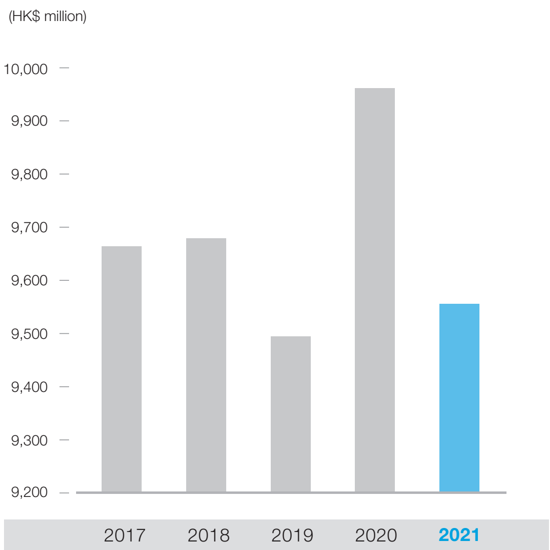
984

WEBSITE

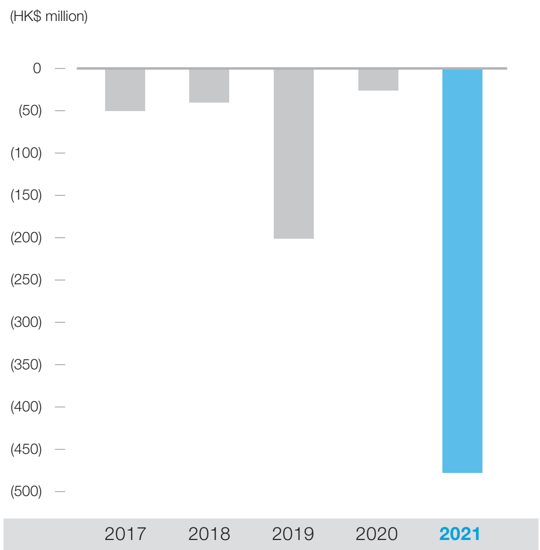
www.aeonstores.com.hk

FINANCIAL HIGHLIGHTS

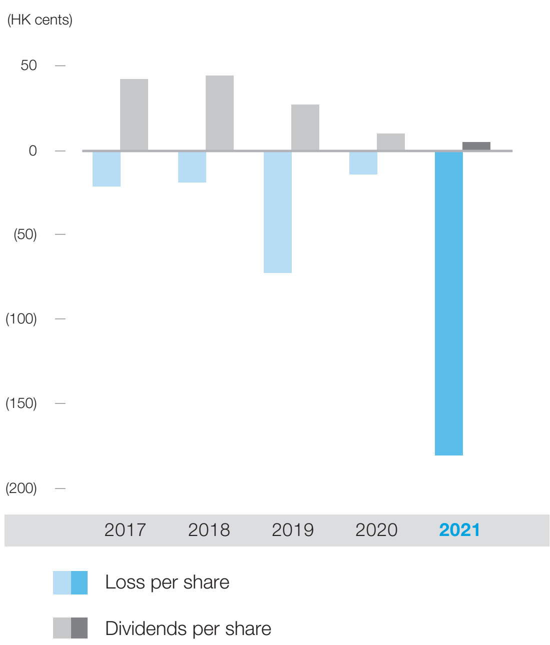
Revenue



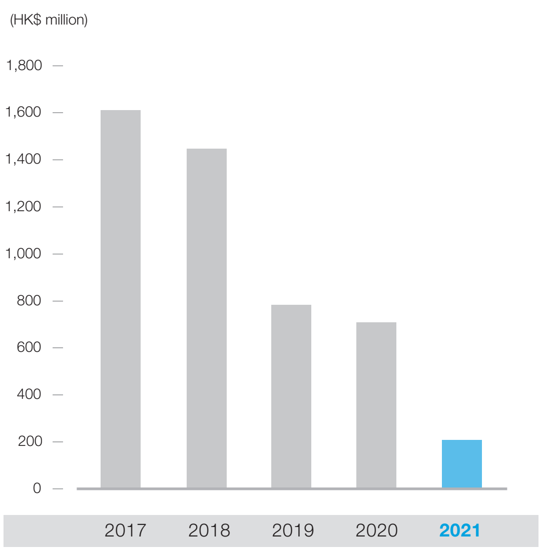
Loss Attributable to Owners of the Company



Loss and Dividends per Share



Equity Attributable to Owners of the Company



CHAIRMAN STATEMENT

Mr. NAKAGAWA Isei
Chairman

Dear Shareholders,

2021 was a challenging year for us with the COVID-19 variants continuing to spread, jarring the retail market and inevitably hitting our business sales. Furthermore, market competition intensified in both Hong Kong and Mainland China, which led to a decline in revenue and gross profit of the Group.

In the area of product differentiation, the Group has introduced proprietary brands from Japan and has set up plans to further develop its proprietary brands. However, the sales increment rate for our proprietary brand products was still below our expectations and the Group has to work harder in the product development.

Despite the many challenges, the Group managed to open six supermarkets in 2021, which is in line with our expansion plans in the Greater China region, and has helped strengthen our foothold in the Greater Bay Area, as well as enabled us to reinforce our potential to become the preferred retailer of customers in the regional market.

Looking forward, the Group has to respond faster to changing customer consumption behaviour so as to improve sales growth. The Group believes its most pressing task is to reform merchandise assortment and store layout as soon as possible; hence, it has stepped up product development, strategized product allocation, gone above and beyond in improving services and formulating store opening strategies.

Amid the pandemic, competition in the food market has heated up quickly with new competitors emerging. In terms of product development, we need to be faster than our competitors in grasping the needs of customers, who are ever the more aware and discerning when it comes to quality of life and eating healthy. Thus, our focus has been on providing healthy and convenient foods and “natural” continues to be a top priority that our H&BC products embrace. Many brick-and-mortar retailers are strengthening their e-commerce presence through their online supermarkets, availing more and more food items online. The Group will take this same approach, continuously enhance the quality of the AEON APPs and expand food and non-food merchandise categories to push up online sales.

The Group has set out key strategies to revive our business, being product reform, advancement in digitalisation, new store development and revitalisation of existing stores. In merchandising particularly, it is imperative for the Group to transform and procure merchandise from its own supply chain, so as to improve sales and its gross margins, increase direct sales less reliance on consignment products, while achieving differentiation by providing specialty merchandise in each department. We have been able to speed up digitalisation in the “AEON ecosystem”, and our Mainland China business especially has benefited from related efforts. Our plans to further digitalisation involve optimising the Group’s “Mobile Assistant” for employees to increase utilization rate and in turn improve staff work efficiency. We will be able to streamline back-store operations and reduce use of PCs, allowing us to allocate saved manpower to proper points of engagement to help increase business sales. We are also looking to expand business presence and will formulate a strategic plan to facilitate stable opening of new stores every year. Our efforts to revitalise existing stores will continue for our stores in core business areas, and also by introducing new stores that can bring back the charm of shopping to encourage patronage.

CHAIRMAN STATEMENT

The Group is fully committed to implementing the aforementioned strategies and braving revolutionary changes. We believe our "Everything we do, we do for our customers" service philosophy and commitment is what sets us apart from our industry peers. We look forward to delivering more personalised, healthy, convenient and comfortable shopping experiences to all AEON Stores customers.

As always, on behalf of the Board, I would like to extend my heartfelt gratitude and appreciation to the management and all staff for their dedication, hard work and contribution, as well as to our customers for their support, trust and loyalty over the years.

I. nakagawa

NAKAGAWA Isei
Chairman

Hong Kong, 25 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. SUGAWARA Isao
Managing Director

BUSINESS REVIEW

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

Hong Kong Operations

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

PRC Operations

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

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

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

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

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

PROSPECTS

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

Hong Kong Operations

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

PRC Operations

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

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

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

Group

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

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

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

FINANCIAL REVIEW

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Board proposed a final dividend of HK$0.02 (2020: HK$0.05) per share for the year ended 31 December 2021. In the recommendation or declaration of dividends, the Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant. Together with the interim dividend of HK$0.03 (2020: HK$0.05) per share paid in the year, total dividends for the year is HK$0.05 (2020: HK$0.10) per share.

During the year, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC and the upgrade of information technology systems amounted to HK$165.5 million.

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

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK$1,833.6 million as at 31 December 2021 (2020: HK$2,001.6 million). The Group had no bank borrowing and therefore did not disclose any gearing ratio (which is defined by dividing bank borrowings to equity) and had sufficient internal resources to finance future business expansions.

As at year end date, deposits of HK$28.0 million (2020: HK$25.0 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$8.0 million (2020: HK$7.6 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

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

As at 31 December 2021, the Group's current liabilities exceeded its current assets by HK$461.3 million (2020: net current liabilities of HK$94.3 million). The Group has a number of financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

CORPORATE GOALS

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

HUMAN RESOURCES

As at 31 December 2021, the Group had approximately 5,900 full-time and 3,900 part-time employees in Hong Kong and the PRC. Under the "Everything we do, we do for our customers" credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build AEON into a brand that benefits all customers.

SUGAWARA Isao
Managing Director

Hong Kong, 25 March 2022

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

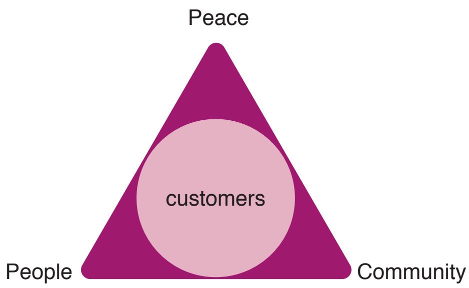
The annual ESG report contains information on significant economic, environmental and social impacts arising from the Group's operations in Hong Kong and in mainland China for the year. These include operations conducted by AEON Stores (Hong Kong) Co., Limited and our two principal subsidiaries Guangdong 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 2021, 612 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 2021, 124,242 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 2021, 3,249 tonnes of food waste was collected for recycling.

AEON recycles waste cooking oil into biodiesel products. In 2021, 93.1 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 162,291,000 kWh and 2,620,000 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 1.26 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 212,400 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

(d) 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 2021, the Group employed approximately 9,800 staff which can be grouped by:

Gender	Number of staff
Male	2,600
Female	7,200
Total	9,800

	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	900	3,000	3,900
Part timer	1,000	2,900	3,900
Total	2,600	7,200	9,800

Age group	Number of staff
between 18 to 35	4,100
between 36 to 50	4,300
>50	1,400
Total	9,800

Geographical region	Number of staff
Hong Kong	3,100
China (other than Hong Kong)	6,700
Total	9,800

Average employee turnover rate in the year grouped by:

Gender	%
Male	6.5%
Female	5.5%
Total	5.8%

Age group	%
between 18 to 35	9.1%
between 36 to 50	3.0%
>50	3.5%
Total	5.8%

Geographical region	%
Hong Kong	5.2%
China (other than Hong Kong)	6.1%
Total	5.8%

(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 2,300 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	2.1
Female	1.9

Employment Category	Hours
Full time executive	3.1
Full time supervisory	2.2
Full time general	1.9
Part timer	1.2

(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 2021, the approximate number of suppliers of merchandise grouped by geographical region was:

Geographical region	No.
Hong Kong	1,000
China (other than Hong Kong)	900
Other countries	500
Total	2,400

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 0.00005%.

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. 58% of complaint cases were settled without compensation, 26% were settled by exchange for similar products or refund and the remaining 16% 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 no 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 volunteer 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 or money 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$2.0 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 340 man hours were spent on organizing AEON Cheers Club activities and other community contribution activities.

iii) The AEON scholarship program provides financial support to high school and university students, leaders of the next generation. Contributions in the year amounted to approximately HK$390,000.

iv) AEON provides direct support to low-income families through food donation. In the year items valued HK$1.4 million were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. SUGAWARA Isao

Mr. Sugawara (aged 61) was appointed as Non-executive Director in March 2021. He was re-designated from Non-executive Director to Executive Director and was appointed as the Managing Director in May 2021. He was the vice president of AEON (China) Co., Ltd. ("ACCL") and is a director of Guangdong AEON Teem Co., Ltd. and AEON South China Co., Ltd., both being subsidiaries of the Company. Mr. Sugawara joined AEON Co., Ltd. ("AEON Co"), the ultimate holding company of the Company, in March 1981. Since then, he was assigned to assume different positions in various business divisions of AEON Co. In May 2014, Mr. Sugawara was appointed the chief operation officer of ACCL and in March 2020, he became the vice president of ACCL. Mr. Sugawara graduated from the Faculty of Agriculture, Akita Prefectural University.

Mr. CHAK Kam Yuen

Mr. Chak (aged 59) was appointed as Executive Director in March 2013 and is in charge of Corporate Compliance Division of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 30 years of solid experience in retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce. Mr. Chak confirmed that he will not stand for re-election as a Director at the forthcoming annual general meeting of the Company to be held before the end of May 2022 as he would like to commit more of his time with his family members.

Mr. NAGASHIMA Takenori

Mr. Nagashima (aged 40) was appointed as the Administration General Manager of the Company in May 2019 and 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, management in charge and small store development. Mr. Nagashima received his bachelor's degree from the International Cultural Exchange School of Fudan University.

Mr. HISANAGA Shinya

Mr. Hisanaga (aged 48) 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.

SENIOR MANAGEMENT PROFILE

NON-EXECUTIVE DIRECTORS

Mr. NAKAGAWA Isei

Mr. Nakagawa (aged 55) 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.

Ms. HABU Yuki

Ms. Habu (aged 54) was appointed as Non-executive Director in March 2014, became the Chairman of the Board in Apri1 2015, and was re-designated as an Executive Director and appointed as the Managing director in May 2017. She ceased to be the Managing Director and was re-designated as a Non executive Director in May 2019. Ms. Habu ceased to be the Chairman of the Board in May 2021 and remains as a Non executive Director.

Ms. Habu joined AEON Co., Ltd. ("AEON Co") in 1991. From March 2017 to May 2021, she was the executive officer, chief officer of China Business of AEON Co. From March 2020 to February 2021, she was the executive vice president of China Business of AEON Co. In February 2020, she was appointed the executive vice president of Digital Business of AEON Co. In 2011, she was appointed a director of AEON (China) Co., Ltd. ("AEON (China)"). From 2014 to May 2021, she was the chairman and president of AEON (China). She was the former managing director of Beijing AEON Co., Ltd..

From August 2018, she has been a director of Giddy Inc., a Delaware corporation doing business as Boxed.

Ms. Habu graduated from the Keio University with a bachelor's degree in Commerce.

Ms. Habu confirmed that she will not stand for re-election as a Director at the forthcoming annual general meeting of the Company to be held before the end of May 2022 as she would like to devote more of her time in the digital business of AEON Co., Ltd..

Mr. FUKUDA Makoto

Mr. Fukuda (aged 47) 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, and a member of the Audit & Supervisory Board of AEON ENTERTAINMENT Co., Ltd., a subsidiary of AEON Co. 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. 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.

SENIOR MANAGEMENT PROFILE

Mr. INOHARA Hiroyuki

Mr. Inohara (aged 55) 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, 永旺數字科技有限公司 and 永旺夢樂城（中國）投資有限公司.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHAN Yi Jen Candi Anna

Ms. Chan (aged 60) was appointed as Independent Non-executive Director in May 2013. She is a practicing solicitor in Hong Kong for over 31 years and is a consultant of LCP Lawyers. Ms. Chan was respectively admitted as solicitor in Hong Kong in 1987, as solicitor in England & Wales in 1992 and as advocate and solicitor in Singapore in 1995. She is also a civil celebrant and accredited mediator. Ms. Chan graduated from the University of Hong Kong with a bachelor's degree in Laws (LL.B.). She is currently the Deputy Chairman of Rules, Chairman of Championship Committee and Tournament Director with the Hong Kong Golf Association. Ms. Chan confirmed that she will not stand for re-election as a Director at the forthcoming annual general meeting of the Company to be held before the end of May 2022 as she would like to commit more of her time with her family members.

Mr. CHOW Chi Tong

Mr. Chow (aged 62) 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). Mr. Chow has over 35 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 48) 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.

SENIOR MANAGEMENT PROFILE

Ms. LAW Chi Yan Joyce

Ms. Law (aged 53) was appointed as Independent Non-executive Director in January 2022. She was an ex-tax partner of PricewaterhouseCoopers Limited based in Hong Kong and practiced US and PRC tax consulting for over 25 years in both Hong Kong and San Francisco. Ms. Law possesses extensive knowledge and experience with respect to the China and US tax systems, regulatory and business environments. She is also expertise in pre-IPO structuring advice and mergers and acquisitions. Ms. Law graduated from the University of Michigan with a bachelor degree double majored in Economics and Sociology. Ms. Law also passed the US AICPA examination

SENIOR MANAGEMENT

Mr. YEUNG Tze Shing

Mr. Yeung (aged 58) 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. WONG Shun Ping

Mr. Wong (aged 53) joined the Company in January 2019 as the Assistant General Manager of Construction and Maintenance Department of the Company. Before he joined the Company, he was a senior manager of AEON China Investment Co., Ltd. responsible for the standardisation of stores designs, procurement of fixtures and facilities for all new store projects and store renovation projects in China. Mr. Wong graduated from the Hong Kong Polytechnic University with a Higher Certificate in Mechanical Engineering.

Mr. LI Yat Ming

Mr. Li (aged 56) 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

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 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 2021 with the code provisions of the Code in force during the year.

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 2021.

BOARD OF DIRECTORS

Board Composition

As at the date of this annual report, the Board comprises a total of 12 Directors, being 4 Executive Directors, 4 Non-executive Directors and 4 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 21 to 24 of this annual report.

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

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.

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").

CORPORATE GOVERNANCE REPORT

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 six regular meetings and two 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 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.

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.

Attendance at Board Meetings

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

	Directors	**Number of attendance**
Executive Directors	Isao Sugawara *(MD)* (Note 1)	5/5
	Chak Kam Yuen	8/8
	Lau Chi Sum Sam (Note 2)	2/2
	Takenori Nagashima	8/8
	Shinya Hisanaga	8/8
Non-executive Directors	Isei Nakagawa *(Chairman)*	8/8
	Akinori Yamashita (Note 3)	3/3
	Yuki Habu	8/8
	Makoto Fukuda (Note 4)	3/3
Independent Non-executive Directors	Chan Yi Jen Candi Anna	8/8
	Lo Miu Sheung, Betty	7/8
	Chow Chi Tong	8/8
	Hideto Mizuno	8/8

CORPORATE GOVERNANCE REPORT

Notes:

1. Mr. Isao Sugawara was appointed as a Non-executive Director on 25 March 2021 and re-designated as an Executive Director on 28 Mary 2021 and there were 5 Board meetings held after his appointment.

2. Mr. Lau Chi Sum resigned on 27 March 2021 and there were 2 Board meetings held between 1 January 2021 and 27 March 2021.

3. Mr. Akinori Yamashita retired on 28 May 2021 and there were 3 Board meetings held between 1 January 2021 and 28 May 2021.

4. Mr. Makoto Fukuda was appointed as a Non-executive Director on 28 May 2021 and there were 3 Board meetings held after his 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.

Attendance at Annual General Meeting

The attendance of the Directors at the Annual General Meeting held on 28 May 2021 is as follows:

	Directors	Number of attendance
Executive Directors	Isao Sugawara *(MD)*	Attended by video conference
	Chak Kam Yuen	Attended in person
	Takenori Nagashima	Attended in person
	Shinya Hisanaga	Attended in person
Non-executive Directors	Isei Nakagawa *(Chairman)* (Note 1)	Attended in person
	Yuki Habu (Note 1)	Attended by video conference
	Akinori Yamashita	Attended by video conference
	Makoto Fukuda (Note 2)	N/A
Independent Non-executive Directors	Chan Yi Jen Candi Anna	Attended in person
	Lo Miu Sheung, Betty	Absent
	Chow Chi Tong	Attended in person
	Hideto Mizuno (Note 1)	Attended by video conference

Notes:

1. Owing to the COVID-19 pandemic and Government quarantine measures, Mr. Isei Nakagawa, Ms. Yuki Habu, Mr. Akinori Yamashita and Mr. Hideto Mizuno, all of whom were stationing outside Hong Kong, could not attend the Annual General Meeting in person. Instead, they joined the said meeting by video conference to answer questions from shareholders. The Annual General Meeting was chaired by Mr. Isei Nakagawa.

2. Mr. Makoto Fukuda was appointed as a Non-executive Director after the Annual General Meeting held on 28 May 2021.

CORPORATE GOVERNANCE REPORT

Independence of Independent Non-executive Directors

The Company has received annual confirmations of independence from the 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.

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	✓
	Lau Chi Sum Sam	N/A
	Takenori Nagashima	✓
	Shinya Hisanaga	✓
Non-executive Directors	Isei Nakagawa *(Chairman)*	✓
	Yuki Habu	✓
	Akinori Yamashita	N/A
	Makoto Fukuda	✓
Independent Non-executive Directors	Chan Yi Jen Candi Anna	✓
	Lo Miu Sheung, Betty	✓
	Chow Chi Tong	✓
	Hideto Mizuno	✓

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

Under code provision A.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 A.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.

From 1 January 2021 to 27 May 2021, Ms. Yuki Habu was the Chairman of the Board of the Company while Mr. Isei Nakagawa was the MD of the Company. From 28 May 2021, Ms. Yuki Habu ceased to be the Chairman of the Board of the Company and was succeeded by Mr. Isei Nakagawa. From 28 May 2021, Mr. Isei Nakagawa was re-designated from Executive Director to Non-executive Director and ceased to be the Managing Director of the Company. From 28 May 2021, Mr. Isao Sugawara was re-designated from Non-executive Director to Executive Director and appointed as the Managing Director of the Company. During the year 2021, the roles of the Chairman and the Managing Director of the Company remain segregated and assumed by two separate individuals who have no relationship with each other to ensure the power and authority are not concentrated in any one individual for the purpose of code provision A.2.1.

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 are 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.

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.

CORPORATE GOVERNANCE REPORT

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.

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 are set out as follows:

	Directors	**Number of attendance**
Non-executive Director	Isei Nakagawa *(Chairman)* (Note 1)	1/1
	Yuki Habu (Note 2)	1/1
Independent Non-executive Directors	Chan Yi Jen Candi Anna	2/2
	Lo Miu Sheung, Betty	1/2
	Chow Chi Tong	2/2
	Hideto Mizuno	2/2

Notes

1. Mr. Isei Nakagawa was appointed a member and the Chairman of the Nomination Committee on 28 May 2021 and there was one Nomination Committee meeting held after 28 May 2021.

2. Ms. Yuki Habu ceased to be a member and the Chairman of the Nomination Committee on 28 May 2021 and there was one Nomination Committee meeting held before 28 May 2021.

CORPORATE GOVERNANCE REPORT

During 2021, 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 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 2021, and appointment/re-appointment of Board and Committee Chairmen, Committee members and Managing Director; and

– assessed the experience and qualification of the candidate for appointment as new Director and new senior management with recommendations to the Board for their appointments.

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.

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

	Directors	Number of attendance
Non-executive Director	Isei Nakagawa (Note 1)	1/1
	Yuki Habu (Note 2)	1/1
Independent Non-executive Directors	Chan Yi Jen Candi Anna *(Chairman)*	2/2
	Lo Miu Sheung, Betty	1/2
	Chow Chi Tong	2/2
	Hideto Mizuno	2/2

Notes

1. Mr. Isei Nakagawa was appointed a member of the Remuneration Committee on 28 May 2021 and there was one Remuneration Committee meeting held after 28 May 2021.

2. Ms. Yuki Habu ceased to be a member of the Remuneration Committee on 28 May 2021 and there was one Remuneration Committee meeting held before 28 May 2021.

CORPORATE GOVERNANCE REPORT

During 2021, 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 new Director and new senior management.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2021 are disclosed in the notes 14 and 15 to the consolidated financial statements.

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 are set out as follows:

	Directors	Number of attendance
Non-executive Director	Isei Nakagawa (Note 1)	3/3
	Yuki Habu (Note 2)	3/3
Independent Non-executive Directors	Chow Chi Tong *(Chairman)*	6/6
	Chan Yi Jen Candi Anna	6/6
	Lo Miu Sheung, Betty	6/6
	Hideto Mizuno	6/6

Notes

1. Mr. Isei Nakagawa was appointed a member of the Audit Committee on 28 May 2021 and there were 3 Audit Committee meetings held after 28 May 2021.

2. Ms. Yuki Habu ceased to be a member of the Audit Committee on 28 May 2021 and there were 3 Audit Committee meetings held before 28 May 2021.

During 2021, the Audit Committee performed the following duties:

– met with the external auditor to discuss and monitor the progress of the audit works under the COVID-19 impact;

– reviewed the audited financial statements for the year ended 31 December 2020 with a recommendation to the Board for approval;

– reviewed the un-audited financial statements for the six months ended 30 June 2021 with a recommendation to the Board for approval;

CORPORATE GOVERNANCE REPORT

- 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 schedule, audit planning, management letters and management's response) to the committee in respect of the annual results and interim results of the Company;
- 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;
- reviewed the independence and objectivity of the external auditors;
- recommended to the Board the re-appointment of the external auditors; and
- reviewed 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.

AUDITOR'S REMUNERATION

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

Services rendered	**Fees paid/payable** HK$'000
Audit services - annual audit	5,626
Non-audit services:	
Review of interim results	894
Taxation services	1,309
Other services	1,299
	9,128

CORPORATE GOVERNANCE REPORT

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.

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 six months ended 30 June 2021 and for the year ended 31 December 2021, 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 reporting responsibilities of the Company's auditor, Deloitte Touche Tohmatsu, are stated in the "Independent Auditor's Report" on pages 52 to 56 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.

CORPORATE GOVERNANCE REPORT

The Risk Control Self-Assessment Matrix focuses on the following 9 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

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, 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.

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.

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.

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 contact person of 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 2021.

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

There is no significant change in the Company's constitutional documents during the year ended 31 December 2021.

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 2021.

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 pages 4 to 5 and in the Management Discussion and Analysis on pages 6 to 9 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 pages 4 to 5 and in the Management Discussion and Analysis on pages 6 to 9 and in the Corporate Governance Report under the section headed "Risk Management and Internal Controls" on page 34 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 6 to 9 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 10 to 20 of this annual report.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2021 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 2021.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 57 to 58 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 10 June 2022. Subject to the shareholders' approval at the forthcoming annual general meeting, the final dividend will be paid on or before 28 June 2022.

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 2021 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 2021 were the retained profits of HK$437,638,000 (2020: HK$717,488,000).

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. SUGAWARA Isao *(Managing Director)*	Appointed Non-executive Director on 25 March 2021 and re-designated from Non-executive Director to Executive Director and appointed Managing Director from 28 May 2021
Mr. CHAK Kam Yuen	
Mr. NAGASHIMA Takenori	
Mr. HISANAGA Shinya	
Mr. LAU Chi Sum Sam	Resigned on 27 March 2021

Non-executive Directors

Mr. NAKAGAWA Isei *(Chairman)*	Re-designated from Executive Director to Non-executive Director and ceased to be the Managing Director and appointed the Chairman from 28 May 2021
Ms. HABU Yuki	Ceased to be the Chairman from 28 May 2021
Mr. FUKUDA Makoto	Appointed on 28 May 2021
Mr. INOHARA Hiroyuki	Appointed on 25 March 2022
Mr. YAMASHITA Akinori	Retired on 28 May 2021

Independent Non-executive Directors

Ms. CHAN Yi Jen Candi Anna	
Mr. CHOW Chi Tong	
Mr. MIZUNO Hideto	
Ms. LAW Chi Yan Joyce	Appointed on 28 January 2022
Ms. LO Miu Sheung Betty	Resigned on 1 January 2022

At the Board meeting held on 25 March 2022, the Board was notified by Mr. CHAK Kam Yuen, Ms. HABU Yuki and Ms. CHAN Yi Jen Candi Anna of their retirement with effect from the conclusion of the forthcoming annual general meeting and therefore, they would not offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Articles 85 and 101 of the Company's Articles of Association, all Directors (except Mr. CHAK Kam Yuen, Ms. HABU Yuki and Ms. CHAN Yi Jen Candi Anna) 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, LAU Chi Sum Sam, Isei NAKAGAWA, Takenori NAGASHIMA, Yuki HABU, CHEN Yin Feng, Kenji TOMARI, Hiroyuki INOHARA, JIAO Li, SHI Qiu Hua, WANG Jian Heng, Isao SUGAWARA, 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 2021, the interests of the Directors 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%
CHAK Kam Yuen	10,000	0.00385%
NAGASHIMA Takenori	2,000	0.00077%
HISANAGA Shinya	30,000	0.01154%
HABU Yuki	20,000	0.00769%

(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%
HABU Yuki	8,460	0.00097%

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

Other than as disclosed above, at 31 December 2021, 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 incurred during the year. More details of each of the transaction reported could be referred to in the announcements related to each transaction.

(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 RMB53,818,458. 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 24 December 2018, 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 2021. The renewed Royalty Agreement was renewed on substantially the same terms as the Royalty Agreement that was entered on 29 December 2015 and expired on 31 December 2018. 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 centres; 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$26,071,355. This amount does not exceed the cap amount of HK$40,000,000 as shown in the announcement of the Company dated 24 December 2018.

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$12,876,344. 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 11 December 2018, the Company entered into the Master Services Agreement with 永旺永樂(上海)企業管理有限公司 ("AEON Delight") for a period of three years commenced on 1 January 2019 and expiring on 31 December 2021. This Master Services Agreement was entered into on substantially the same terms as the Master Services Agreement that the Company entered into with AEON Delight (China) Co., Ltd., ("AEON Delight (China)") on 1 January 2016 which expired on 31 December 2018. AEON Delight is the contracting party to the Master Service Agreement in place of AEON Delight (China) 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 RMB28,474,881. This amount does not exceed the cap amount of RMB45,000,000 as shown in the announcement of the Company dated 11 December 2018.

(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 RMB24,580,572. This amount does not exceed the cap amount of RMB40,600,000 as shown in the announcement of the company dated 23 November 2015.

(vi) On 26 February 2019, 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 2019 to 28 February 2022. The renewed Master Agreement was renewed on substantially the same terms as the Master Agreement that was entered on 1 March 2016 and expired on 28 February 2019. 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$9,386,000. This amount does not exceed the cap amount of HK$16,500,000 as shown in the announcement of the Company dated 26 February 2019.

DIRECTORS' REPORT

(vii) On 16 January 2019, 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 2019 to 31 December 2021. The renewed Consultancy Services Agreements were renewed on substantially the same terms as the Consultancy Services Agreements that was entered by each of the Company, GDA and ASC with AEON China on 29 March 2016 and expired on 31 December 2018. 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) operational logistics; (ii) establishment of operating systems; (iii) procurement activities; (iv) market development; (v) staff training; and (vi) in accordance with specific requests of each of the Company, GDA and ASC, provide other consultancy services on production or operational related matters.

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 to the seven companies, plus 5% of such costs. The service fee payable by each of the Company, GDA and ASC shall be a portion of such total amount, determined with reference to its number of stores that received such consultancy services during the relevant period, together with related taxes.

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 Agreement) for that financial year.

The total amount of Consultancy Services fees paid and payable by the Company, GDA and ASC to AEON China in the year was HK$12,780,924. This amount does not exceed the cap amount of HK$37,000,000 as shown in the announcement of the Company dated 16 January 2019.

(viii) On 3 December 2019, the Company and AEON GLOBAL SCM Co., Ltd., ("AGSCM Japan") entered into a Master Services Agreement, pursuant to which AGSCM Japan and its subsidiaries ("AGSCM Japan 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 3 December 2019 to 30 November 2022. AGSCM Japan is a connected person of the Company by virtue of it being a non-wholly owned 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 constitutes continuing connected transactions 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. The relevant member of the Group will consider and compare the prices offered by the different bidders based on their respective monthly service fees. For logistics services, the manpower costs (based on fixed monthly rates that vary for the different personnel) and handling charges (based on fixed rates that vary depending on the type of merchandise involved and services provided) will also be considered. 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 for the provision of Services.

DIRECTORS' REPORT

The transaction amount of the Master Services Agreement in the year was RMB10,351,713. This amount does not exceed the cap amount of RMB19,650,000 as shown in the announcement of the Company dated 3 December 2019.

(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 RMB2,072,862. This amount does not exceed the cap amount of RMB2,820,000 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 RMB16,058,911. 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.

(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 RMB4,853,823. This amount does not exceed the cap amount of RMB6,130,000 as shown in the announcement of the Company dated 15 December 2020.

DIRECTORS' REPORT

(xii) On 31 December 2018, the Company and AEON TopValu Co., Ltd. ("TopV") entered into 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 term of the Master Trademark Licence Agreement commenced from 1 January 2019 for a period of three years to 31 December 2021. 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$15,790,912. This amount does not exceed the cap amount of HK$38,000,000 as shown in the announcement of the Company dated 31 December 2018.

(xiii) On 29 January 2019, 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 Management 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 term of the Management Agreement commenced from 1 February 2019 for a period of three years to 31 January 2022. 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 Management Agreement constitute continuing connected transaction of the Company.

AMBM has been appointed by the landlord of the Premises ("Landlord") as 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. GDA entered into the Management Agreement with AMBM in respect of the management of the Premises and payment of related fees. The amounts payable by GDA to AMBM pursuant to the Management Agreement represent GDA's proportionate contribution to such expenses, which will be subsequently paid by AMBM to the utility suppliers.

DIRECTORS' REPORT

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 and were payable by GDA. Expenses incurred for use of lifts and escalators within the area leased by GDA were payable by GDA. Expenses incurred for use of lifts and escalators located in areas which exceed the Premises were payable by GDA on a pro rata basis based on area leased by GDA.

The total aggregated amount of the utilities expenses paid and payable by GDA to AMBM in the year was RMB3,946,421. This amount does not exceed the cap amount of RMB5,200,000 as shown in the announcement of the Company dated 29 January 2019.

(xiv) On 23 February 2021, 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 2021 to 31 March 2022 at licence fees of HK$229,427 per month exclusive of government rates and management fees. 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.

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$229,427 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 HKD3,274,148. This amount does not exceed the aggregated relevant cap amount of HKD3,300,000 as shown in the relevant announcements of the Company dated 30 March 2020 and 23 February 2021.

DIRECTORS' REPORT

(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 will end 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 aggregated amount of the fees received and receivable by ASC in the year was RMB2,289,740. This amount does not exceed the cap amount of RMB6,000,000 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;

DIRECTORS' REPORT

(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 RMB2,060,029. This amount does not exceed the Revised cap amount of RMB3,000,000 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 for a 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.

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$2,037,638. This amount does not exceed the cap amount of HK$10,600,000 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.

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 2021, 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 1)	60.59%
abrdn plc (formerly known as Standard Life Aberdeen plc) and its affiliated investment management (together "the abrdn Group") on behalf of accounts managed by the abrdn Group	14,757,500 (Note 2)	5.68%

Note 1: 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.

Note 2: As confirmed by abrdn Group, these shares are held by the abrdn Group on behalf of accounts managed by the abrdn Group in the capacity of an investment manager and abrdn Group has the power to vote on all the shares held.

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 2021.

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.

DIRECTORS' REPORT

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$1,392,000.

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.

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 2021 and up to the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2021 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). Deloitte will retire as the auditor upon expiration of its current term of office at the conclusion of the annual general meeting of the Company to be held on 30 May 2022 ("2022 AGM").

On 25 March 2022, the Board resolved, with recommendation from the Audit Committee, to propose the appointment of Messrs. KPMG as the new auditor of the Company for the ensuing year following the retirement of Deloitte, subject to the approval of the shareholders of the Company at the 2022 AGM. Consistent with good corporate governance practice, the Board considers that the proposed change of auditor will be in the best interests of the Company and the shareholders of the Company as a whole.

On behalf of the Board

I. nakagawa

NAKAGAWA Isei
Chairman

Hong Kong, 25 March 2022

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF AEON STORES (HONG KONG) CO., LIMITED
永旺(香港)百貨有限公司
(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 (collectively referred to as "the Group") set out on pages 57 to 127, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 2021, 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 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 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 those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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

KEY AUDIT MATTER

Impairment of goodwill

We identified the impairment of goodwill as a key audit matter as significant judgement is required to assess the impairment of goodwill.

As at 31 December 2021, goodwill, arising from acquisition of an additional 35% interest in AEON South China Co., Ltd. in 2008 which operates retail stores business in the People's Republic of China, was fully impaired.

As further disclosed in notes 4 and 22 to the consolidated financial statements, determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value.

Based on the management's assessment, impairment loss on goodwill of HK$62,838,000 was recognised in profit or loss for the year ended 31 December 2021.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our procedures in relation to management's impairment assessment include:

- Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating unit and checking arithmetic accuracy of the forecast calculation;
- Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness;
- Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors;
- Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts;
- Evaluating the accuracy of historical cash flow forecasts prepared by the management by comparing the historical cash flow forecasts with the actual performance; and
- Evaluating the sufficiency of the disclosure of impairment assessment by management in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER

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

We identified the impairment of property, plant and equipment, and right-of-use assets as a key audit matter as significant judgement is required to assess the amount of impairment of property, plant and equipment, and right-of-use assets.

As at 31 December 2021, property, plant and equipment amounted to HK$580,771,000, net of accumulated impairment losses of HK$119,662,000 while right-of-use assets recognised in accordance with HKFRS 16 Leases amounted to HK$3,206,344,000 net of accumulated impairment losses of HK$112,443,000.

As further disclosed in notes 4 and 20 to the consolidated financial statements, determining whether property, plant and equipment, and right-of-use assets are impaired requires an estimation of the value in use of the cash-generating units of each loss making retail store. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for future changes in the market and taking into account a suitable discount rate to calculate the present value.

Based on the management's assessment, impairment losses on property, plant and equipment, and right-of-use assets of HK$31,093,000 and HK$97,199,000, respectively, were recognised in profit or loss for the year ended 31 December 2021.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our procedures in relation to management's impairment assessment include:

- Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating units and checking arithmetic accuracy of the forecast calculation;
- Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness;
- Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors;
- Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts;
- Evaluating the accuracy of historical cash flows forecasts prepared by the management by comparing the historical cash flows forecasts with the actual performance; and
- Evaluating the sufficiency of the disclosure of impairment assessment by management in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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.

Those charged with governance are responsible 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 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 judgment and maintain professional skepticism 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.

INDEPENDENT AUDITOR'S REPORT

- 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.

- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 the independent auditor's report is Sze On Tat.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
25 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 HK$'000	2020 HK$'000
Revenue	5	**9,554,854**	9,961,893
Other income	7	**499,658**	583,928
Investment income	8	**22,122**	22,411
Interest income from rental deposits		**10,414**	10,767
Purchases of goods and changes in inventories		**(6,796,846)**	(7,082,877)
Staff costs		**(1,101,078)**	(1,061,224)
Depreciation of investment properties	21	**(85,369)**	(83,913)
Depreciation of property, plant and equipment	18	**(213,325)**	(204,694)
Depreciation of right-of-use assets	19	**(753,963)**	(724,225)
Lease expenses		**(88,818)**	(91,275)
Other expenses	9	**(1,110,621)**	(1,040,881)
Pre-operating expenses	10	**(6,536)**	(2,823)
Other gains and losses	11	**(136,747)**	(14,581)
Interest on lease liabilities		**(283,649)**	(292,755)
Loss before tax		**(489,904)**	(20,249)
Income tax expense	12	**(13,293)**	(9,987)
Loss for the year	13	**(503,197)**	(30,236)
Loss for the year attributable to:			
Owners of the Company		**(469,963)**	(36,806)
Non-controlling interest		**(33,234)**	6,570
		(503,197)	(30,236)
Loss per share – basic	17	**HK$1.81**	HK$0.14

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTES	2021 HK$'000	2020 HK$'000
Non-current Assets			
Property, plant and equipment	18	**580,771**	645,756
Right-of-use assets	19	**3,206,344**	3,762,037
Investment properties	21	**373,910**	479,890
Goodwill	22	**–**	62,838
Equity instruments at FVTOCI	23	**18,982**	19,848
Pledged bank deposits	24	**24,698**	22,417
Deferred tax assets	25	**33,583**	44,819
Rental and related deposits paid	26	**217,370**	201,724
		4,455,658	5,239,329
Current Assets			
Inventories	27	**953,839**	889,997
Trade receivables	26	**31,749**	37,809
Other receivables, prepayments and deposits	26	**109,408**	102,112
Amounts due from fellow subsidiaries	28	**58,581**	62,690
Time deposits	29	**285,672**	463,740
Pledged bank deposits	24	**11,251**	10,230
Bank balances and cash	30	**1,547,893**	1,537,837
		2,998,393	3,104,415
Current Liabilities			
Trade payables	31	**1,296,730**	1,231,199
Other payables, accrued charges and other liabilities	31	**781,175**	753,530
Lease liabilities	32	**833,899**	711,073
Contract liabilities	31	**481,524**	441,548
Dividend payable		**272**	295
Amount due to ultimate holding company	33	**27,596**	26,998
Amounts due to fellow subsidiaries	33	**38,331**	28,933
Tax liabilities		**209**	5,150
		3,459,736	3,198,726
Net Current Liabilities		**(461,343)**	(94,311)
Total Assets Less Current Liabilities		**3,994,315**	5,145,018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTES	2021 HK$'000	2020 HK$'000
Capital and Reserves			
Share capital	34	**115,158**	115,158
Reserves		**88,286**	587,498
Equity attributable to owners of the Company		**203,444**	702,656
Non-controlling interest		**119,246**	146,976
Total Equity		**322,690**	849,632
Non-current Liabilities			
Rental deposits received and other liabilities	31	**139,178**	135,579
Lease liabilities	32	**3,532,447**	4,159,573
Deferred tax liabilities	25	**–**	234
		3,671,625	4,295,386
		3,994,315	5,145,018

The consolidated financial statements on pages 57 to 127 were approved and authorised for issue by the board of directors on 25 March 2022 and are signed on its behalf by:

NAKAGAWA ISEI
Director

SUGAWARA ISAO
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to owners of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	The People's Republic of China (the "PRC") statutory reserves HK$'000	Non-distributable reserve HK$'000	Retained profits (accumulated loss) HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2020	115,158	21,194	30,013	34,368	134,535	438,264	773,532	132,752	906,284
(Loss) profit for the year	–	–	–	–	–	(36,806)	(36,806)	6,570	(30,236)
Other comprehensive (expense) income for the year	–	(3,750)	(4,375)	–	–	–	(8,125)	7,654	(471)
Total comprehensive (expense) income for the year	–	(3,750)	(4,375)	–	–	(36,806)	(44,931)	14,224	(30,707)
Transfer of reserves	–	–	–	1,782	–	(1,782)	–	–	–
Dividends recognised as distribution (note 16)	–	–	–	–	–	(26,000)	(26,000)	–	(26,000)
Unclaimed dividends forfeited	–	–	–	–	–	55	55	–	55
At 31 December 2020	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 (expense) income for the year	**-**	**(867)**	**(7,610)**	**-**	**-**	**-**	**(8,477)**	**5,504**	**(2,973)**
Total comprehensive expense 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 HK$'000	2020 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(489,904)**	(20,249)
Adjustments for:		
Depreciation of investment properties	**85,369**	83,913
Depreciation of property, plant and equipment	**213,325**	204,694
Depreciation of right-of-use assets	**753,963**	724,225
Interest on lease liabilities	**283,649**	292,755
Interest income from rental deposits	**(10,414)**	(10,767)
Impairment loss recognised in respect of goodwill	**62,838**	32,000
Impairment loss recognised in respect of property, plant and equipment	**31,093**	1,049
Impairment loss recognised in respect of right-of-use assets	**97,199**	5,413
Investment income	**(22,122)**	(22,411)
Loss on disposal/written off of property, plant and equipment	**694**	4,703
(Write-back) write-down of inventories	**(990)**	2,884
Gain on lease modification	**(39,518)**	–
Gain on termination of lease contracts	**–**	(5,374)
Operating cash flows before movements in working capital	**965,182**	1,292,835
(Increase) decrease in inventories	**(43,830)**	67,115
Decrease (increase) in trade receivables	**6,788**	(1,461)
Increase in other receivables, prepayments and deposits	**(18,378)**	(27,821)
Decrease in amounts due from fellow subsidiaries	**4,456**	1,340
Increase (decrease) in trade payables	**28,490**	(51,574)
Increase in other payables, accrued charges and other liabilities	**24,225**	3,555
Increase in contract liabilities	**23,282**	11,262
Increase (decrease) in amount due to ultimate holding company	**598**	(1,667)
Increase in amounts due to fellow subsidiaries	**8,352**	10,187
Cash generated from operations	**999,165**	1,303,771
Income taxes paid	**(5,836)**	(18,680)
Income taxes refunded	**–**	8,532
Interest on bank deposits and time deposits received	**29,849**	23,318
NET CASH FROM OPERATING ACTIVITIES	**1,023,178**	1,316,941

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 HK$'000	2020 HK$'000
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(4,900)**	(990)
Withdrawal of pledged bank deposits	**2,972**	2,127
Dividends from equity instruments at FVTOCI	**1,522**	1,673
Purchase of property, plant and equipment	**(166,056)**	(155,878)
Proceeds from disposal of property, plant and equipment	**538**	212
Payment for right-of-use assets	**(4,741)**	(1,079)
Payment for rental deposits	**(19,920)**	(17,818)
Placement of time deposits	**(653,649)**	(1,290,117)
Withdrawal of time deposits	**838,513**	1,164,455
NET CASH USED IN INVESTING ACTIVITIES	**(5,721)**	(297,415)
FINANCING ACTIVITIES		
Dividends paid	**(20,795)**	(26,004)
Interest on lease liabilities	**(283,649)**	(292,755)
Repayment of lease liabilities	**(732,876)**	(669,090)
CASH USED IN FINANCING ACTIVITIES	**(1,037,320)**	(987,849)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(19,863)**	31,677
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,537,837**	1,470,515
Effect of foreign exchange rate changes	**29,919**	35,645
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**1,547,893**	1,537,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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

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

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

The Group has applied the Amendment to HKFRS 16 *Covid-19-Related Rent Concessions* for the first time in the current year. The amendments introduce a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions that occurred as a direct consequence of the Covid-19 pandemic that meets all of the following conditions:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

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

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

The application of these amendments has had no material impact on the Group's financial positions and performance in the current and prior years as the Group opted not to apply the practical expedient, but applied the applicable requirements of HKFRS 16 to account for rent concessions provided by certain lessors.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[2]

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK$655,725,000 and HK$898,485,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

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. 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 ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$461,343,000 at 31 December 2021. The directors of the Company have reviewed the cash flow projections prepared by management to evaluate the Group's ability to continue as a going concern. Based on the cash flow projections, the directors of the Company have a reasonable expectation that the Group has adequate resources to continue in operational existence and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2021. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

3.1 Basis of preparation of consolidated financial statements (Continued)

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. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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 the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 or arising from business combinations, 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 in the course of construction for production, supply or administrative purposes 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 accumulated 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 resale, 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 on a 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 of financial assets subjects to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including pledged bank deposits, trade 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 of financial assets subjects to impairment assessment 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 are 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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 of financial assets subjects to impairment assessment 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 trade 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 of financial assets subjects to impairment assessment 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 trade 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 by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. Where the actual future cash flows are less than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, a material impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operation of retail stores.

Details of the impairment assessment on goodwill are disclosed in note 22.

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

Property, plant and equipment, investment properties 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, 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 (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including growth rates, budgeted sales, gross margins and an appropriate discount rate. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts. Furthermore, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions in the Group's operation of retail stores.

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

Net realisable value of inventories

The Group's inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value for certain items when there is objective evidence that the cost of inventories may not be recoverable for those items. The cost of inventories may not be recoverable if certain items of inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sale have increased.

The determination of the amount of allowance requires assessment of net realisable values of inventories by the management and the consideration of the conditions and age of the inventories, consumer demand and subsequent sales information. If estimates regarding consumer demand are inaccurate, allowance for inventories may increase or decrease accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 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

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

(ii) Performance obligations for contracts with customers

Direct sales

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

5. REVENUE (Continued)

(ii) Performance obligations for contracts with customers (Continued)

Income from concessionaire sales

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

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

As at 31 December 2021 and 2020, the remaining performance obligations (unsatisfied or partially unsatisfied) are part of contracts that have original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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.

Segment revenues and results

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

For the year ended 31 December 2021

	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)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

6. OPERATING SEGMENTS (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2020

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

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

Inter-segment revenue is charged at cost.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

6. OPERATING SEGMENTS (Continued)

Other segment information

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 profit or 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/written off of property, plant and equipment	**429**	**265**	**694**
Gain on lease modification	**(237)**	**(39,281)**	**(39,518)**
Write-back of inventories	**–**	**(990)**	**(990)**
Interest on lease liabilities	**145,064**	**138,585**	**283,649**

For the year ended 31 December 2020

	Hong Kong HK$'000	PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation of investment properties	43,817	40,096	83,913
Depreciation of property, plant and equipment	104,787	99,907	204,694
Depreciation of right-of-use assets	481,025	243,200	724,225
Impairment loss recognised in respect of property, plant and equipment	–	1,049	1,049
Impairment loss recognised in respect of right-of-use assets	–	5,413	5,413
Loss on disposal/written off of property, plant and equipment	298	4,405	4,703
Loss (gain) on termination of lease contracts	98	(5,472)	(5,374)
(Write-back) write-down of inventories	(5,304)	8,188	2,884
Interest on lease liabilities	164,117	128,638	292,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

6. OPERATING SEGMENTS (Continued)

Geographical information

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

	2021 HK$'000	2020 HK$'000
Hong Kong	**2,541,976**	2,823,655
PRC	**1,836,419**	2,265,752
	4,378,395	5,089,407

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

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

During the year, the Group recognised government grants of HK$1,600,000 (2020: HK$133,718,000) from Places of Public Entertainment Licence Holder Subsidy Scheme, Food Licence Holders Subsidy Scheme and Employment Support Scheme under Anti-Epidemic Fund of the Hong Kong Government, and HK$8,457,000 (2020: HK$12,711,000) relating to subsidies granted by municipal governments in PRC.

8. INVESTMENT INCOME

	2021 HK$'000	2020 HK$'000
Dividends from equity instruments at FVTOCI	**1,522**	1,673
Interest from bank and time deposits	**20,600**	20,738
	22,122	22,411

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

9. OTHER EXPENSES

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

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 2021 are staff costs of HK$5,253,000 (2020: HK$2,731,000).

11. OTHER GAINS AND LOSSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

12. INCOME TAX EXPENSE

	2021 HK$'000	2020 HK$'000
The charges comprise:		
Current tax		
PRC Enterprise Income Tax	**190**	4,736
PRC withholding tax	**575**	1,843
	765	6,579
Deferred tax (note 25)		
Current year	**7,842**	3,408
Over-provision in prior years	**4,686**	–
Income tax expense for the year	**13,293**	9,987

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

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

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

The income tax expense for the year can be reconciled from the loss before tax per the consolidated statement of profit or loss as follows:

	2021 HK$'000	2020 HK$'000
Loss before tax	**(489,904)**	(20,249)
Taxation at the applicable rate of 16.5% (Note)	**(80,834)**	(3,341)
Tax effect of expenses not deductible for tax purpose	**26,410**	9,468
Tax effect of income not taxable for tax purpose	**(19,523)**	(30,021)
Tax effect of deductible temporary difference not recognised	**48,997**	14,871
Tax effect of tax losses not recognised	**30,408**	14,980
Withholding tax on undistributed earnings of a subsidiary	**(234)**	(879)
Withholding tax on interest income of a subsidiary	**575**	1,843
Effect of different tax rates of entities operating in the PRC	**2,808**	3,066
Over-provision of deferred tax asset provided in prior years	**4,686**	–
Income tax expense	**13,293**	9,987

Note: The domestic tax rate which is Hong Kong Profits Tax rate in the jurisdiction where the operation of the Group is substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

13. LOSS FOR THE YEAR

	2021 HK$'000	2020 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**5,626**	5,278
Expenses relating to		
– short-term leases and leases of low-value assets	**19,605**	17,774
– variable lease payment (Note)	**70,040**	73,501
	89,645	91,275
Retirement benefits scheme contributions	**103,269**	78,631
Gross rental income from investment properties		
– fixed	**(240,156)**	(265,948)
– variable (Note)	**(130,818)**	(63,387)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**117,385**	122,270
	(253,589)	(207,065)
Cost of inventories recognised as an expense	**6,796,846**	7,082,877
(Write-back) write-down of inventories (included in purchase of goods and changes in inventories)	**(990)**	2,884

Following by a series of promotion campaign in PRC retail stores during the year, write-back of inventories amounting to 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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				
	Yuki Habu HK$'000 (Note a)	Isei Nakagawa HK$'000 (Note b)	Isao Sugawara HK$'000 (Note c)	Chak Kam Yuen HK$'000	Takenori Nagashima HK$'000	Shinya Hisanaga HK$'000 (Note e)	Lau Chi Sum, Sam HK$'000 (Note f)	Isei Nakagawa HK$'000 (Note b)	Makoto Fukuda HK$'000 (Note d)	Yuki Habu HK$'000 (Note a)	Akinori Yamashita HK$'000	Chan Yi Jen, Candi Anna HK$'000	Lo Miu Sheung, Betty HK$'000 (Note g)	Chow Chi Tong HK$'000	Hideto Mizuno HK$'000	Total HK$'000
For the year ended 31 December 2021																
Fees	**–**	**–**	**–**	**70**	**–**	**–**	**16**	**–**	**–**	**–**	**–**	**190**	**180**	**190**	**180**	**826**
Other emoluments																
Salaries and other benefits	**–**	**580**	**991**	**1,065**	**1,676**	**1,194**	**290**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,796**
Performance based bonus (Note h)	**–**	**240**	**344**	**245**	**86**	**88**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,003**
Contributions to retirement benefits 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**
For the year ended 31 December 2020																
Fees	–	–	–	70	–	–	70	–	–	–	–	180	170	180	170	840
Other emoluments																
Salaries and other benefits	–	1,630	–	1,060	1,577	789	972	–	–	–	–	–	–	–	–	6,028
Performance based bonus (Note h)	–	6	–	217	116	76	143	–	–	–	–	–	–	–	–	558
Contributions to retirement benefits schemes	–	377	–	73	164	36	67	–	–	–	–	–	–	–	–	717
Total	–	2,013	–	1,420	1,857	901	1,252	–	–	–	–	180	170	180	170	8,143

Notes:

(a) Ms. Yuki Habu has been re-designated from Managing Director ("MD") to non-executive director with effect from 16 May 2019.

(b) Mr. Isei Nakagawa was appointed as MD of the Company with effect from 16 May 2019 and re-designated from MD to non-executive director with effect from 28 May 2021.

(c) Mr. Isao Sugawara was appointed as MD of the Company with effect from 28 May 2021. The Board of Directors considered that the duties of the MD were of no difference from that of a Chief Executive Officer stipulated under Provision A. 2 of the Code of Corporate Governance Practices in Appendix 14 of the Listing Rules. The management would regard that the term MD will have the same meaning as the Chief Executive Officer of the Company.

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

(e) Director was appointed during the year ended 31 December 2020.

(f) Director was resigned during the year ended 31 December 2021.

(g) Director was resigned with effect from 1 January 2022.

(h) 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 (2020: two) were directors whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining three (2020: three) individuals were as follows:

	2021 **HK$'000**	2020 HK$'000
Salaries and other benefits	**4,260**	5,996
Performance based bonus	**133**	837
Contributions to retirement benefit schemes	**318**	232
	4,711	7,065

	2021 **No. of** **employees**	2020 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,500,000	**–**	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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FOR THE YEAR ENDED 31 DECEMBER 2021

15. EMPLOYEES' EMOLUMENTS (Continued)

Other than the directors' emoluments and three individuals of the Group disclosed in note 14 and above, the emoluments of the three (2020: four) senior management of the Group were within the following bands:

	2021 No. of employees	2020 No. of employees
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**1**	1

16. DIVIDENDS

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

The Board of Directors has recommended a final dividend of 2 HK cents per share (2020: 5 HK cents), in an aggregate amount of HK$5,200,000 (2020: HK$13,000,000) to be paid on or before 28 June 2022, subject to shareholders' approval at the forthcoming annual general meeting on 30 May 2022.

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$469,963,000 (2020: HK$36,806,000) and on 260,000,000 (2020: 260,000,000) ordinary shares in issue during the year.

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

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FOR THE YEAR ENDED 31 DECEMBER 2021

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 2020	1,715,927	658,463	3,381	24,827	2,402,598
Exchange adjustments	58,511	18,524	145	1,272	78,452
Additions	6,630	21,028	–	128,851	156,509
Transfer	96,611	30,960	–	(127,571)	–
Disposals/written off	(22,778)	(20,686)	(167)	–	(43,631)
At 31 December 2020	**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/written 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**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2020	1,231,320	488,735	2,802	–	1,722,857
Exchange adjustments	43,801	14,352	136	–	58,289
Provided for the year	138,690	65,652	352	–	204,694
Eliminated on disposal/written off	(19,165)	(19,427)	(125)	–	(38,717)
Impairment losses recognised (note 20)	1,049	–	–	–	1,049
At 31 December 2020	**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/written 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**
CARRYING VALUES					
At 31 December 2021	**388,510**	**158,440**	**14**	**33,807**	**580,771**
At 31 December 2020	459,206	158,977	194	27,379	645,756

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. RIGHT-OF-USE ASSETS

	Leased properties HK$'000
As at 31 December 2021	
Carrying amount	**3,206,344**
As at 31 December 2020	
Carrying amount	**3,762,037**
For the year ended 31 December 2021	
Depreciation charge	**753,963**
Impairment loss recognised	**97,199**
For the year ended 31 December 2020	
Depreciation charge	**724,225**
Impairment loss recognised	**5,413**

	2021 HK$'000	2020 HK$'000
Expense relating to short-term leases	**12,879**	10,320
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**6,726**	7,454
Variable lease payments not included in the measurement of lease liabilities	**70,040**	73,501
Total cash outflow for leases	**1,130,831**	1,072,017
Additions to right-of-use assets	**305,427**	576,786

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 (2020: 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.

During the year, following by a lease modification resulting shorten of lease term, the Group had derecognised right-of-use assets of HK$91,923,000 and related lease liabilities of HK$131,441,000, resulting into a gain on lease modification amounting to HK$39,518,000 recognised in profit or loss.

The Group regularly entered into short-term leases for staff quarters, office equipment and advertising billboards. As at 31 December 2021 and 31 December 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases entered during the year, to which the short-term lease expense of HK$12,879,000 (2020: HK$10,320,000) was recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. RIGHT-OF-USE ASSETS (Continued)

Leases of retail stores are either with only fixed lease payments or contain variable lease payment that are based on 2% to 14% (2020: 2.5% 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 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**

For the year ended 31 December 2020

	Number of premises	Fixed payments HK$'000	Variable payments HK$'000	Total payments HK$'000
Retail stores, warehouse and office without variable lease payments	34	277,718	–	277,718
Retail stores with variable lease payments	82	684,127	73,501	757,628
	116	961,845	73,501	1,035,346

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 (2020: 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 31.12.2021 HK$'000	**Potential future lease payments not included in lease liabilities (undiscounted) 31.12.2021 HK$'000**	Lease liabilities recognised as at 31.12.2020 HK$'000	Potential future lease payments not included in lease liabilities (undiscounted) 31.12.2020 HK$'000
Retail stores, warehouse and office – Hong Kong	**2,595,049**	**63,480**	2,817,019	86,860
Retail stores, warehouse and office – PRC	**1,771,297**	**880,710**	2,053,627	830,035

The following table summarised the additional lease liabilities recognised during the year ended 31 December 2021 and 2020 as a result of exercising extension option that the Group was not reasonably certain to exercise:

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**

For the year ended 31 December 2020

	Extension Option exercisable No. of leases	Extension option exercised No. of leases
Retail stores – Hong Kong	2	2
Additional lease liabilities recognised (HK$'000)		23,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

Certain stores of the Group have been experiencing recurring losses or performing below budget. The management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitute individual cash-generating units for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the individual stores to which the relevant assets belong.

The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, to the end of the relevant leases of the building fixtures and right-of-use assets with zero growth rate, and at a pre-tax discount rate ranging from 10% to 13% (2020: 10% to 13%). Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market.

Based on the result of the assessment, management of the Group determined that the recoverable amount of some cash-generating units are lower than the carrying amount. The impairment amount has been allocated to each category of 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 value in use calculation and the allocation, impairment loss of HK$31,093,000 and HK$97,199,000 (2020: HK$1,049,000 and HK$5,413,000), has been recognised against the carrying amounts of property, plant and equipment, and right-of-use assets, respectively.

During the year, accumulated impairment losses on property, plant and equipment of HK$8,405,000 (2020: HK$1,833,000) have been eliminated upon the disposal of building fixtures.

As at 31 December 2021, accumulated impairment losses on property, plant and equipment amounted to HK$119,662,000 (2020: HK$94,451,000).

During the year, accumulated impairment losses on right-of-use assets of HK$nil (2020: HK$477,000) have been eliminated upon the expiration of lease contracts.

As at 31 December 2021, accumulated impairment losses on right-of-use assets amounted to HK$112,443,000 (2020: HK$14,834,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 (2020: one to fifteen years). The leases of retail stores contain variable lease payment that are based on 5.0% to 30.0% (2020: 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 2021, cash outflow for leases of HK$95,182,000 (2020: HK$101,920,000) represented the amounts paid for leased properties under sub-leases.

	Leased properties HK$'000
COST	
At 1 January 2020	576,635
Exchange adjustments	18,253
Additions	119,490
Reclassification to right-of-use assets (Note)	(73,824)
At 31 December 2020	**640,554**
Exchange adjustments	**14,399**
Additions	**27,138**
Reclassification to right-of-use assets (Note)	**(59,918)**
At 31 December 2021	**622,173**
DEPRECIATION	
At 1 January 2020	88,283
Exchange adjustments	3,603
Provided for the year	83,913
Eliminated on reclassification to right-of-use assets (Note)	(15,135)
At 31 December 2020	**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**
CARRYING VALUES	
As 31 December 2021	**373,910**
At 31 December 2020	479,890

The fair value of the Group's investment properties at 31 December 2021 was HK$1,566,841,000 (2020: HK$1,780,392,000). The fair value has been arrived at based on a valuation carried out by Cushman & Wakefield Limited, an independent qualified valuer not connected to the Group which has appropriate professional qualifications and recent experience in the valuations of similar properties in the relevant locations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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:

	2021		2020	
	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	**153,279**	**452,920**	194,005	556,829
Retail stores located in PRC	**220,631**	**1,113,921**	285,885	1,223,563
	373,910	**1,566,841**	479,890	1,780,392

Note: The carrying amount of investment properties of HK$58,154,000 (2020: HK$58,689,000) has been transferred to right-of-use assets because its use has changed as evidenced by the commencement of owner-occupation.

22. GOODWILL

	HK$'000
COST	
At 1 January 2020, 31 December 2020 and 31 December 2021	94,838
IMPAIRMENT	
At 1 January 2020	–
Impairment loss recognised	32,000
At 31 December 2020	32,000
Impairment loss recognised	62,838
At 31 December 2021	**94,838**
CARRYING VALUES	
As 31 December 2021	**–**
At 31 December 2020	62,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. GOODWILL (Continued)

The amount represents 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 Group identifies the relevant retail stores business operated by AEON South China as a group of cash-generating units with synergy effects to which the cost amounting to goodwill HK$94,838,000 (2020: HK$94,838,000) is allocated.

The recoverable amount of the group of cash-generating units has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2020: 5-yer period), and pre-tax discount rate of 12% (2020: 12%) that reflects current market assessment of the time value of money and the risks specific to the group of cash-generating units. The cash flows beyond 5-year period are extrapolated using a zero growth rate. In the case of other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margins, such estimation is based on the cash-generating units' past performance and management's expectations for the future changes in the market.

Based on the performance of the group of cash-generating units, management have consequently determined impairment of goodwill amounting to HK$62,838,000 (2020: HK$32,000,000), which have been included in profit or loss in the other gains and losses line item. Such goodwill relating to the group of cash-generating units has been fully impaired. No other write-down of the assets of the group of cash-generating units is considered necessary.

23. EQUITY INSTRUMENTS AT FVTOCI

	2021 **HK$'000**	2020 HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**18,982**	19,848

The listed shares in Hong Kong mainly represents an investment in a fellow subsidiary of HK$18,806,000 (2020: HK$19,677,000).

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

	2021		2020	
	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	**24,698**	**3,293**	22,417	2,587
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**–**	**7,958**	–	7,643
	24,698	**11,251**	22,417	10,230

Details of impairment assessment are set out in note 41.

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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 2020	5,271	36,353	634	(1,112)	4,686	45,832
Exchange adjustments	54	2,107	–	–	–	2,161
(Charge) credit to profit or loss	(4,005)	(281)	–	878	–	(3,408)
At 31 December 2020	1,320	38,179	634	(234)	4,686	44,585
Exchange adjustments	**103**	**1,423**	**–**	**–**	**–**	**1,526**
Credit (charge) 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**

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

	2021 HK$'000	2020 HK$'000
Deferred tax assets	**33,583**	44,819
Deferred tax liabilities	**–**	(234)
	33,583	44,585

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FOR THE YEAR ENDED 31 DECEMBER 2021

25. DEFERRED TAXATION (Continued)

Furthermore, the Group had unused tax losses of HK$908,831,000 (2020: HK$714,456,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of HK$nil (2020: HK$28,438,000). 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$261,632,000 (2020: HK$205,896,000) that will expire as follows. Other losses may be carried forward indefinitely.

	2021 **HK$'000**	2020 HK$'000
To be expired by:		
31 December 2023	**71,404**	66,686
31 December 2024	**109,730**	98,934
31 December 2025	**32,313**	40,276
31 December 2026	**48,185**	–

At the end of the reporting period, the Group had other deductible temporary difference of HK$830,965,000 (2020: HK$557,572,000). A deferred tax asset has been recognised in respect of deductible temporary difference of HK$132,207,000 (2020: HK$163,927,000). No deferred tax asset has been recognised in respect of the remaining deductible difference of HK$698,758,000 (2020: HK$393,645,000).

26. TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

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

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

	2021 **HK$'000**	2020 HK$'000
Within 30 days	**31,489**	37,618
31 to 60 days	**109**	158
Over 60 days	**151**	33
Trade receivables	**31,749**	37,809
Rental and related deposits paid	**237,080**	214,339
Other receivables, prepayments and other deposits	**89,698**	89,497
	326,778	303,836
Less: Rental and related deposits paid under non-current assets	**(217,370)**	(201,724)
Other receivables, prepayments and deposits	**109,408**	102,112

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FOR THE YEAR ENDED 31 DECEMBER 2021

26. TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

The Group's revenue is generated mainly from cash sales, credit card sales and sales by other electronic payment methods. The average credit period on credit cards sales and sales by other electronic payment methods are 10 days. The balance of trade receivables mainly represents trade receivables arising from credit card sales and sales by other electronic payment methods. There are no significant overdue debtors at the end of reporting period. No default is expected.

Details of impairment assessment of trade and other receivables are set out in note 41.

27. INVENTORIES

Inventories represent merchandise held for resale.

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$990,000 (2020: written down inventories of HK$2,884,000) 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 (2020: 15 to 35 days). The amounts have an age of 0 to 35 days (2020: 0 to 35 days) since the invoice date and not yet due at the end of the respective reporting periods.

Details of impairment assessment are set out in note 41.

29. TIME DEPOSITS

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

As at 31 December 2020, time deposits represent time deposits denominated in RMB and HKD amounting to HK$251,790,000 and HK$211,950,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in RMB and HKD are 2.05% and 0.69% per annum, respectively. The deposits expired during the year ended 31 December 2021.

Details of impairment assessment are set out in note 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 2.58% (2020: 0.01% to 2.56%) 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:

	2021 **HK$'000**	2020 HK$'000
HKD	**171**	180
USD	**12,815**	10,043
Japanese Yen ("JPY")	**34,856**	29,138
RMB	**70,885**	7,259

Details of 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 aged analysis of trade payables presented based on the invoice date at the end of the reporting periods, and an analysis of other payables, accrued charges and other liabilities.

	2021 **HK$'000**	2020 HK$'000
0 to 60 days	**1,157,188**	1,054,564
61 to 90 days	**22,554**	61,301
Over 90 days	**116,988**	115,334
Trade payables	**1,296,730**	1,231,199

The average credit period on purchases of goods is 60 days (2020: 60 days).

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FOR THE YEAR ENDED 31 DECEMBER 2021

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

	2021 HK$'000	2020 HK$'000
Accrued expenses and other liabilities	**393,860**	379,917
Accrued staff costs	**251,938**	261,597
Value added tax payables for advance receipts on prepaid store-value cards	**51,622**	47,451
Payables for purchase of property, plant and equipment	**11,373**	11,964
Provision for reinstatement (Note)	**96,754**	92,814
Rental deposits received	**114,806**	95,366
	920,353	889,109
Less: Rental deposits received and other liabilities under non-current liabilities	**(139,178)**	(135,579)
Other payables, accrued charges and other liabilities	**781,175**	753,530

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 2020	92,271
Additional provision in the year	2,734
Utilisation of provision	(2,644)
Exchange realignments	453
At 31 December 2020	92,814
Additional provision in the year	4,529
Utilisation of provision	(959)
Exchange realignments	370
At 31 December 2021	**96,754**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

The following is an analysis of contract liabilities:

	2021 **HK$'000**	2020 HK$'000
Advance receipts on prepaid store-value cards	**440,067**	399,819
Deferred revenue	**41,457**	41,729
	481,524	441,548

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:

	2021 **HK$'000**	2020 HK$'000
Balance at the beginning of the year	**441,548**	409,426
Decrease in contract liabilities as a result of recognising revenue during the year	**(414,030)**	(417,417)
Increase in contract liabilities as a result of receiving consideration	**437,312**	428,679
Exchange realignments	**16,694**	20,860
Balance at the end of the year	**481,524**	441,548

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

32. LEASE LIABILITIES

	2021 **HK$'000**	2020 HK$'000
Lease liabilities payable:		
Within one year	**833,899**	711,073
Within a period of more than one year but not more than two years	**844,519**	773,163
Within a period of more than two years but not more than five years	**1,610,277**	1,944,865
Within a period of more than five years	**1,077,651**	1,441,545
	4,366,346	4,870,646
Less: Amount due for settlement within 12 months shown under current liabilities	**(833,899)**	(711,073)
Amount due for settlement after 12 months shown under non-current liabilities	**3,532,447**	4,159,573

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 (2020: 60 to 90 days). The amounts have an age of 60 to 90 days (2020: 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 2020, 31 December 2020, 1 January 2021 and 31 December 2021	260,000,000	115,158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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:

	2021 HK$'000	2020 HK$'000
Non-current Assets		
Property, plant and equipment	**233,329**	265,657
Right-of-use assets	**1,968,012**	2,198,204
Investment properties	**153,279**	194,005
Investments in subsidiaries	**197,137**	197,137
Equity instruments at FVTOCI	**18,982**	19,848
Loan to a subsidiary	**122,686**	171,393
Deferred tax assets	**–**	4,499
Rental and related deposits paid	**187,356**	165,790
	2,880,781	3,216,533
Current Assets		
Inventories	**454,260**	439,152
Trade receivables	**15,502**	18,739
Other receivables, prepayments and deposits	**68,928**	48,642
Amounts due from subsidiaries	**9,469**	5,428
Amounts due from fellow subsidiaries	**43,546**	62,919
Time deposits	**181,609**	269,087
Bank balances and cash	**737,339**	810,001
	1,510,653	1,653,968
Current Liabilities		
Trade payables	**620,067**	616,606
Other payables, accrued charges and other liabilities	**438,423**	425,980
Lease liabilities	**565,714**	487,584
Contract liabilities	**47,759**	42,940
Dividend payable	**272**	295
Amount due to ultimate holding company	**27,596**	26,998
Amounts due to fellow subsidiaries	**4,071**	2,083
	1,703,902	1,602,486
Net Current (Liabilities) Assets	**(193,249)**	51,482
Total Assets Less Current Liabilities	**2,687,532**	3,268,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2021 HK$'000	2020 HK$'000
Capital and Reserves		
Share capital	**115,158**	115,158
Reserves	**454,215**	734,932
	569,373	850,090
Non-current Liabilities		
Rental deposits received and other liabilities	**88,824**	88,256
Lease liabilities	**2,029,335**	2,329,435
Deferred tax liabilities	**–**	234
	2,118,159	2,417,925
	2,687,532	3,268,015

The Company's statement of financial position was approved and authorised for issue by the board of directors on 25 March 2022 and is signed on its behalf by:

NAKAGAWA ISEI	**SUGAWARA ISAO**
Director	*Director*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

A summary of the Company's reserves is as follows:

	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2020	21,194	659,309	680,503
Profit for the year	–	84,124	84,124
Fair value loss on investments in equity instruments at FVTOCI	(3,750)	–	(3,750)
Total comprehensive (expense) income for the year	(3,750)	84,124	80,374
Dividends recognised as distribution	–	(26,000)	(26,000)
Unclaimed dividends forfeited	–	55	55
At 31 December 2020	**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 expense 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**

36. CAPITAL COMMITMENTS

	2021 HK$'000	2020 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**14,455**	20,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 (2020: next one to thirteen years).

Undiscounted lease payments receivable on leases are as follows:

	2021 **HK$'000**	2020 HK$'000
Within one year	**249,518**	281,903
In the second year	**137,268**	173,490
In the third year	**63,298**	98,531
In the fourth year	**19,477**	43,191
In the fifth year	**9,866**	20,762
After five years	**13,584**	36,210
	493,011	654,087

The leases are negotiated for terms ranging from one to fifteen years (2020: 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 BENEFITS SCHEMES

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$23,292,000 (2020: HK$21,395,000) 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. 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$2,810,000 (2020: HK$3,442,000) 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$77,167,000 (2020: HK$53,794,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

39. RELATED PARTY TRANSACTIONS

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

Relationship	Nature of transaction	2021 HK$'000	2020 HK$'000
Fellow subsidiaries	Commission for credit facilities provided to customers	14,914	13,357
	Franchise fee	311	205
	Trademark fee	7,829	12,309
	Other expense	19,291	22,977
	Other income	11,394	13,467
	Purchase of goods and property, plant and equipment	8,962	2,112
	Interest on lease liabilities	4,075	5,017
	Repayment of lease liabilities	18,524	13,815
	Management fees and utilities expenses	19,997	16,019
	Rental income	21,488	18,056
	Sales of coupons	9,418	8,522
	Service fee expense	58,358	56,059
Ultimate holding company	Royalty expenses	26,071	27,501
Non-controlling shareholder of the subsidiary*	Advertising expenses	1,186	1,726
	Interest on lease liabilities	11,657	13,425
	Repayment of lease liabilities	38,651	32,173
	Other income	–	36
	Management fees and utilities expenses	13,354	13,218

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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:

	2021 HK$'000	2020 HK$'000
Amounts due from fellow subsidiaries (included in other receivables, prepayments and deposits)	**4,093**	5,103
Amounts due to fellow subsidiaries (included in lease liabilities)	**53,192**	76,194
Amount due from a non-controlling shareholder of the subsidiary (included in other receivables, prepayments and deposits)	**4,959**	4,562
Amount due to a non-controlling shareholder of the subsidiary (included in lease liabilities)	**164,987**	189,804

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

41. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021 HK$'000	2020 HK$'000
Financial assets at amortised cost	**2,260,931**	2,412,541
Equity instruments at FVTOCI	**18,982**	19,848
Financial liabilities at amortised cost	**1,860,869**	1,736,055
Lease liabilities	**4,366,346**	4,870,646

(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 2021.

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

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	
	2021 HK$'000	2020 HK$'000	**2021 HK$'000**	2020 HK$'000
HKD	**171**	662	**–**	–
USD	**13,062**	10,043	**14,656**	7,569
JPY	**34,856**	29,363	**22,538**	19,304
RMB	**109,857**	64,396	**–**	–
Intra-group balances RMB	**132,155**	176,821	**–**	–

Foreign currency sensitivity

As HKD is pegged to USD, it is assumed that there would be no material currency risk exposure on 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.

	2021			2020		
	Increase (decrease) in foreign exchange rates %	**Increase (decrease) in loss after tax HK$'000**	**Increase (decrease) in other comprehensive income HK$'000**	Increase (decrease) in foreign exchange rates %	Increase (decrease) in loss after tax HK$'000	Increase (decrease) in other comprehensive income HK$'000
JPY	**10%**	**1,029**	**–**	10%	840	–
	(10%)	**(1,029)**	**–**	(10%)	(840)	–
RMB	**10%**	**9,173**	**13,216**	10%	5,377	17,682
	(10%)	**(9,173)**	**(13,216)**	(10%)	(5,377)	(17,682)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

41. FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk management (Continued)

Foreign currency sensitivity (Continued)

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 2020.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(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 fluctuates 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% (2020: 5%) higher/lower, while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$949,000 (2020: HK$992,000) for the Group, as a result of the changes in fair value of equity instruments at FVTOCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

41. FINANCIAL INSTRUMENTS (Continued)

(f) Credit risk and impairment assessment

The carrying amounts of pledged bank deposits, trade receivables, 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 trade receivables represent mainly credit card receivables from finance companies.

Trade receivables

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 trade 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 receivables was immaterial and no provision was made.

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 financing company 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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$461,343,000 (2020: HK$94,311,000) at 31 December 2021. The directors of the Company have reviewed the cash flow projections prepared by management to evaluate the Group's ability to continue as a going concern. Based on the cash flow projections, the directors of the Company have a reasonable expectation that the Group has adequate resources to continue in operational existence and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2021.

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.

	Weighted average effective interest rate	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total undiscounted cash flows amount	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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**
2020							
Lease liabilities	3.71% – 7.89%	487,131	498,356	3,987,955	1,495,107	6,468,549	4,870,646
Non-interest bearing financial liabilities	–	1,665,012	13,937	56,676	430	1,736,055	1,736,055
		2,152,143	512,293	4,044,631	1,495,537	8,204,604	6,606,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 into Levels 1 to 3 based on the degree to which the fair value is observable.

	Level 1	
	2021 **HK$'000**	2020 HK$'000
Equity instruments at FVTOCI		
Listed equity securities	**18,982**	19,848

There were no transfers between levels in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 2020	354	4,800,700	4,801,054
Financing cash flows	(26,004)	(961,845)	(987,849)
Non-cash changes			
New leases entered/leases modified	–	546,603	546,603
Interest on lease liabilities	–	292,755	292,755
Dividends recognised as distribution	26,000	–	26,000
Unclaimed dividends forfeited	(55)	–	(55)
Exchange realignment	–	192,433	192,433
At 31 December 2020	**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**

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) profit allocated to a non-controlling interest		Accumulated non-controlling interest		Principal activities
				2021 & 2020	2021 & 2020	2021 & 2020	2021 & 2020	**2021 HK$'000**	2020 HK$'000	**2021 HK$'000**	2020 HK$'000	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB228,690,000 (2020: RMB228,690,000)	65%	66%	35%	34%	**(33,234)**	6,570	**119,245**	146,976	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2020: RMB212,800,000)	100%	100%	–	–	**–**	–	**–**	–	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2020: HK$1,000)	100%	100%	–	–	**–**	–	**–**	–	Inactive

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

	2021 **HK$'000**	2020 HK$'000
Current assets	**1,361,152**	1,294,000
Non-current assets	**1,086,569**	1,277,367
Current liabilities	**1,376,787**	1,255,827
Non-current liabilities	**722,696**	888,073
Equity attributable to owners of the Company	**228,992**	280,491
Non-controlling interest	**119,246**	146,976
Revenue	**4,048,304**	4,038,432
Expenses	**4,143,259**	4,019,661
(Loss) profit for the year	**(94,955)**	18,771
(Loss) profit attributable to owners of the Company	**(61,721)**	12,201
(Loss) profit attributable to a non-controlling interest	**(33,234)**	6,570
(Loss) profit for the year	**(94,955)**	18,771
Other comprehensive income attributable to owners of the Company	**10,222**	14,214
Other comprehensive income attributable to a non-controlling interest	**5,504**	7,654
Other comprehensive income for the year	**15,726**	21,868

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

43. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interest (Continued)

	Year ended	
	2021 **HK$'000**	2020 HK$'000
Total comprehensive (expense) income attributable to owners of the Company	**(51,499)**	26,415
Total comprehensive (expense) income attributable to a non-controlling interest	**(27,730)**	14,224
Total comprehensive (expense) income for the year	**(79,229)**	40,639
Net cash inflow from operating activities	**309,144**	295,644
Net cash inflow (outflow) from investing activities	**4,207**	(50,276)
Net cash outflow from financing activities	**(235,995)**	(216,997)
Net cash inflow	**77,356**	28,371

FINANCIAL SUMMARY

THE GROUP

	For the year ended 31 December				
	2017 HK$'000	2018 HK$'000	2019 HK$'000	2020 HK$'000	**2021** **HK$'000**
RESULTS					
Revenue	9,665,539	9,675,891	9,493,774	9,961,893	**9,554,854**
Loss before tax	(63,207)	(23,259)	(167,955)	(20,249)	**(489,904)**
Income tax expense	(11,015)	(19,718)	(21,032)	(9,987)	**(13,293)**
Loss for the year	(74,222)	(42,977)	(188,987)	(30,236)	**(503,197)**

	At 31 December				
	2017 HK$'000	2018 HK$'000	2019 HK$'000	2020 HK$'000	**2021** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	4,842,717	4,387,746	8,377,450	8,343,744	**7,454,051**
Total liabilities	(3,099,346)	(2,809,563)	(7,471,166)	(7,494,112)	**(7,131,361)**
	1,743,371	1,578,183	906,284	849,632	**322,690**
Equity attributable to:					
Owners of the Company	1,605,701	1,441,047	773,532	702,656	**203,444**
Non-controlling interest	137,670	137,136	132,752	146,976	**119,246**
	1,743,371	1,578,183	906,284	849,632	**322,690**