AEON

AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2023 Annual Report

Stock Code: 984

Everything we do
We do for our customers

Pursuing peace, Respecting humans, and Contributing to local communities,
Always with customers as our starting point

AEON　AEON STYLE　AEON SUPERMARKET　LIVING PLAZA　DAISO JAPAN　ものもの Mono Mono　KOMEDA'S Coffee　Bread Factory CANTEVOLE

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

COMPANY SECRETARY

Mr. CHAN Kwong Leung Eric

AUDITOR

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

PRINCIPAL BANKERS

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

SHARE REGISTRARS

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

984

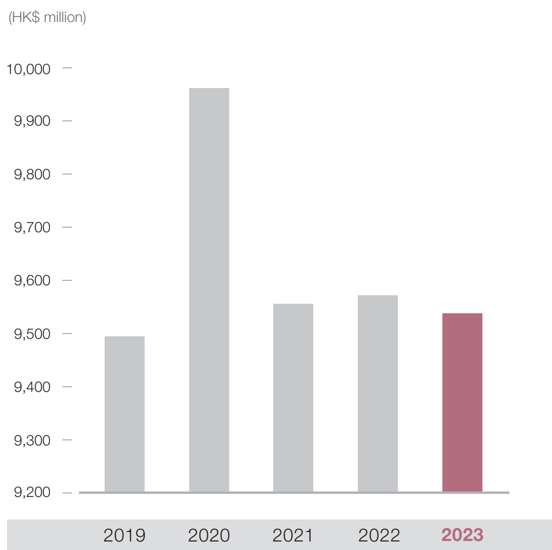
WEBSITE

www.aeonstores.com.hk

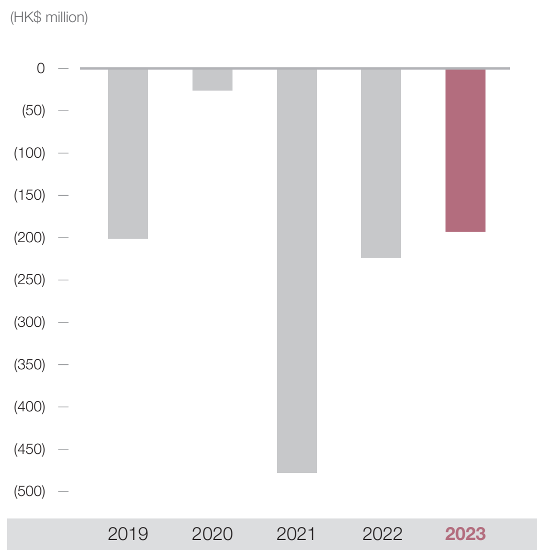
* *Please refer to the announcement of the Company dated 28 March 2024 for details.*

FINANCIAL HIGHLIGHTS

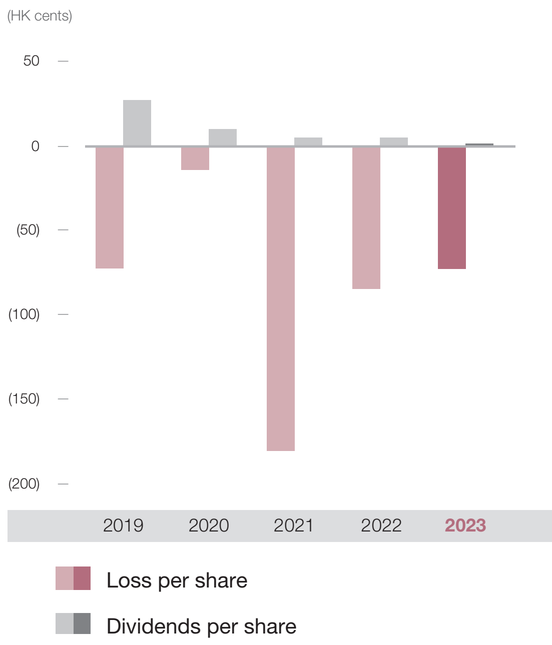
Revenue



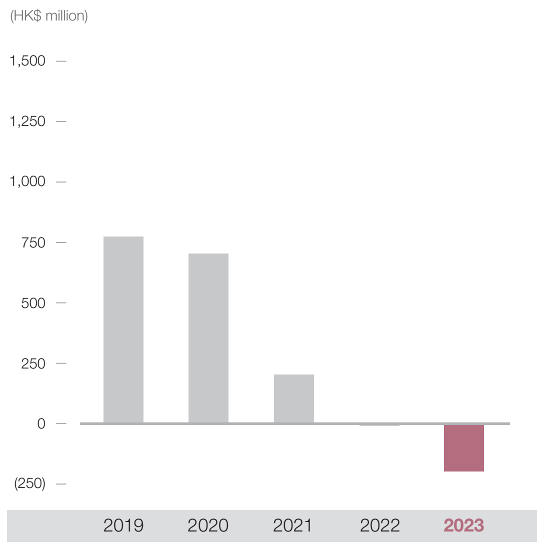
Loss Attributable to Owners of the Company



Loss and Dividends per Share



Equity Attributable to Owners of the Company



CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2023, both Mainland China (the "PRC") and Hong Kong markets began to recover after the PRC fully relaxed epidemic control policies. The overall performance of the retail industry also benefited from this and gradually improved. However, various challenges remained in the post-pandemic era, including the economic downturn caused by global interest rate hikes and weak domestic demand in the PRC and Hong Kong due to a recession in the property markets and the pandemic. Moreover, the Hong Kong retail sector was impacted by the decline in consumer purchasing power and local residents' outbound and northbound travels. As a result of such developments, the Group's overall sales were less satisfactory.

In response to these market changes, the Group implemented a series of operational strategies. During the year, the Group actively adjusted its product structure and expanded its product categories, so as to benefit from the recovery of Hong Kong's tourism industry and the "revenge" travel of local residents. Consequently, the Group saw an improvement in the sales of daily consumables such as food, health products, cosmetics and travel products in Hong Kong. The Group also focused on boosting the sales of its private brand merchandise. With the support of private brands such as TOPVALU, the Group has been able to enhance product differentiation and strengthen customer loyalty. Its exclusive merchandise also received an enthusiastic response, which has helped to increase the Group's profit margins.

The Group's e-commerce business continued to grow steadily during the year as a result of the Group's comprehensive business deployment and development. In order to fully tap the growth potential of e-commerce, the Group has stepped up its investment in online business and accelerated its digital transformation. Externally, the Group has strengthened its online activities in supermarkets and launched a new version of the AEON App to provide customers with a better online shopping experience and encourage greater spending, thereby facilitating higher productivity. Internally, "Mobile Assistant" is widely used within the Group to help employees quickly understand store data, make timely adjustments and improvements to operations, and use digital tools to help maximize the Group's efficiency.

Due to the full relaxation of COVID-19 prevention and control measures, the Group's sales performance in the PRC improved during the year. The Group continued to develop its business in the Greater Bay Area (the "GBA"), actively reviewing and optimizing the layout of existing stores, and bolstering the brand image and product mix to provide customers with a fresh retail experience, thereby increasing sales. During the year, the Group opened three new physical stores in Guangzhou and Zhuhai, further expanding its operational network in the GBA while continuously striving to become the preferred retailer of customers in the region.

In addition, the Group continued to expand its Hong Kong store network, opening stores of different formats to cover different consumer groups and needs. The Group opened its second and third KOMEDA'S Coffee stores in Tuen Mun and Tsim Sha Tsui, and also opened a "Daiso Japan" store in Wong Tai Sin and a pop-up store in Mong Kok. In addition, the Group actively examined customer preferences and introduced new tenants such as "Sukiya" and "Gyushige" to enhance consumer appeal and improve profitability.

Although the economic environment remains gloomy and the market is still under pressure in the short term, the global economy is expected to eventually recover as interest rate cuts are likely to intensify. The Hong Kong SAR Government has also been actively launching various cultural and entertainment activities, which have led to a continuous increase in the number of visitors to Hong Kong. This, coupled with other consumer promotions and subsidy programs, will have a positive impact on the Hong Kong retail market, helping it to gradually recover.

In the future, the Group will strengthen its strategic transformation in the PRC and Hong Kong and improve its operational efficiency and competitiveness through diversified measures that reduce costs and increase efficiency. At the same time, we will strive to cultivate and explore the unique advantages of the brand, enhance AEON's brand value, consolidate its position in the minds of consumers, and promote the long-term development of the Group. We recognize that employees are the cornerstone of the Company's long-term development and success. Therefore, the Group will strengthen in-store training, provide learning and promotion opportunities, and further enhance its vitality and competitiveness.

CHAIRMAN'S STATEMENT

Although the outlook is still fraught with uncertainty, we believe that if the Group remains united and works together, continues to make customer-centric innovations, and provides customers with the best shopping and service experiences, we can move forward in the face of adversity.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the management team and all employees for their dedication and tireless efforts, as well as to our partners and customers for their continued trust and support.

I. nakagawa

NAKAGAWA Isei
Chairman

Hong Kong, 28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Hong Kong Operations

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Mainland China Operations

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

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

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

PROSPECTS

Hong Kong Operations

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

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

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

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

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

Mainland China Operations

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

GROUP

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

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

FINANCIAL REVIEW

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

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

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

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

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

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

The Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant and does not recommend a final dividend (2022: HK$0.02 per share) for the year ended 31 December 2023. Together with the interim dividend of HK$0.02 (2022: HK$0.03) per share paid in the year, total dividends for the year were HK$0.02 (2022: HK$0.05) per share.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK$1,149.6 million as at 31 December 2023 (2022: HK$1,423.4 million). The Group had no bank borrowing and therefore did not disclose any gearing ratio (which is defined by dividing bank borrowings to equity) and had sufficient internal resources to finance future business expansions.

As at year end date, deposits of HK$97.2 million (2022: HK$23.7 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$6.7 million (2022: HK$6.7 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 31 December 2023 amounted to HK$3,208.8 million (2022: HK$3,481.3 million), of which HK$676.0 million (2022: HK$827.0 million) is payable within one year. The Group's lease liabilities to equity ratio as at 31 December 2023 (defined as the total lease liabilities divided by total (deficit)/equity) was –3,398% (2022: 3,417%).

As at 31 December 2023, the Group's current liabilities exceeded its current assets by HK$683.7 million (2022: net current liabilities of HK$615.8 million). The Directors consider that the Group has sufficient financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

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

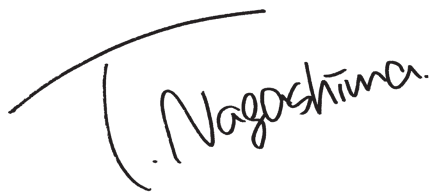
Reconciliation of Adjusted EBITDA	**FY2023 HK$'000**	FY2022 HK$'000
Loss for the year	**(187,802)**	(224,716)
Adjusting items for EBITDA		
Income tax expenses	**2,522**	5,198
Depreciation of investment properties	**65,878**	68,861
Depreciation of property, plant and equipment	**147,012**	179,290
Depreciation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

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

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 31 December 2023, the Group had approximately 5,200 full-time and 3,700 part-time employees in Hong Kong and Mainland China. Under the "Everything we do, we do for our customers" credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build AEON into a brand that benefits all customers.



NAGASHIMA Takenori
Managing Director

Hong Kong, 28 March 2024

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

Pursuing peace, respecting humans, and contributing to local communities, always with customers as our starting point.

AEON firmly believes that retailing is an industry to promote peace, humanity, and local communities. To remain a thriving corporate group that fulfills this mission, we are committed to continuous innovation, with customers as our starting point.

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", "preservation of biodiversity", "promotion of resource recycling" 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 2023, 457 tons of carbon dioxide were 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 2023, 118,170 tons of carbon dioxide were emitted. Throughout the year, AEON has been gradually replacing traditional fluorescent tubes with LED tubes and installing automatic lighting sensor devices in the backyards of existing stores to save energy.

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 transform food waste into electricity and compost. In 2023, 2,209 tons of food waste were collected for recycling.

AEON recycles waste cooking oil into biodiesel products. In 2023, 73.0 tons of waste oil were 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 154,359,000 kWh and 1,956,000 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 1,119,000 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 146,900 Kg. AEON encourages our customers to bring their own shopping bags to reduce shopping bags consumption. AEON also adopted bio-degradable materials for the production of its shopping bags and adopted recyclable materials for its packaging and wrapping materials.

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

(c) The environment and natural resources and Climate change

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

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

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

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

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

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

SOCIAL

1. Employment and labour practices

AEON has been built by AEON people through their contributions and innovative efforts. The future history of AEON will also be written created 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 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 2023, the Group employed approximately 8,900 staff which can be grouped by:

Gender	Staff no.
Male	2,200
Female	6,700
Total	8,900

	Staff no.		
Employment type	**Male**	**Female**	**Total**
Full time executive	200	200	400
Full time supervisory	500	1,000	1,600
Full time general	700	2,600	3,200
Part time	700	3,000	3,700
Total	2,100	6,800	8,900

Age group	Staff no.
between 18 to 35	3,200
between 36 to 50	4,300
>50	1,400
Total	8,900

Geographical region	Staff no.
Hong Kong	2,800
Mainland China (other than Hong Kong)	6,100
Total	8,900

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Average employee turnover rate in the year grouped by:

Gender	%
Male	5.8%
Female	4.9%
Total	5.1%

Age group	%
between 18 to 35	8.6%
between 36 to 50	3.0%
>50	3.3%
Total	5.1%

Geographical region	%
Hong Kong	4.2%
Mainland China (other than Hong Kong)	5.5%
Total	5.1%

(b) Health and safety

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

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

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

In the reporting year, approximately 1,835 days of 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 program

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) AEON Foundational Ideals & Aeon Group Future Vision training

All employees of the AEON Group participate in general training once a year to review the AEON Foundational Ideals & Aeon Group Future Vision.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Gender	Hours
Male	2.2
Female	1.9

Employee category	Hours
Full time executive	2.6
Full time supervisory	2.2
Full time general	2.3
Part time	1.1

(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.

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".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

At 31 December 2023, the approximate number of suppliers of merchandise grouped by geographical region was:

Geographical region	No.
Hong Kong	1,100
China (other than Hong Kong)	1,000
Other countries	600
	2,700

The Group has set up departments responsible for reviewing suppliers' background to ensure suppliers compliant with our internal rules and regulations related to product safety before being 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 any 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 0.000023%.

To facilitate online and offline customer feedback for continuous improvement of product and service quality, AEON has implemented omni-channel customer service across all mainland China stores this year. In the reporting year, approximately 13,125 complaints related to product and services were received, representing a significant increase compared to the previous year. The Group expressed sincere apologies to all complainants for the product or services that cannot met their satisfactions. 91% of complaint cases were settled without compensation, 5% were settled by exchange for similar products or refund and the remaining 4% were settled by other means.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

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 AEON Employee Handbook, 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 connects 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. 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$1.9 million to various beneficiaries.

ii) AEON continues to promote tree planting activities and supports the "Country Park Afforestation Enhancement Plan", sponsoring the planting of 200 trees in Tai Lam Country Park and planting local native species saplings to enhance the ecological value and biodiversity of the country park. In addition, we participated in "Hong Kong Tree Planting Day 2023" and planted a total of 120 local species saplings.

iii) 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 519 man hours were spent on organizing AEON Cheers Club activities and other community contribution activities.

iv) The AEON scholarship program provides financial support to university students, leaders of the next generation. Contributions in the year amounted to approximately HK$370,000 to 3 local and Mainland China universities.

v) AEON provides direct support to low-income families through food donation. In the year items valued HK$0.99 million were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. NAGASHIMA Takenori

Mr. Nagashima (aged 42) was appointed the Managing Director of the Company in March 2023. He joined the Company as the Administration General Manager in May 2019 and has become the Executive Director in charge of Administration and Corporate Finance of the Company in October 2019. He joined AEON Retail Co., Ltd. ("ARCL") in September 2004. From 2011 to 2014, he was assigned to assume different positions related to various operations in AEON Co., Ltd. ("AEON Co"), the ultimate holding company of the Company. In September 2014, he was appointed as the Administration General Manager of 永旺（湖北）商業有限公司, with responsibility of establishing its supporting team. Mr. Nagashima received his bachelor's degree from the International Cultural Exchange School of Fudan University.

Mr. HISANAGA Shinya

Mr. Hisanaga (aged 50) 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 ARCL in April 1997. Since then, he was assigned to assume different positions in various business divisions related to business planning and coordination in ARCL group companies. Before he joined the Company, he was an executive officer of Home Coordy Business Division in ARCL. He became a director of Sunday Co., Ltd. and AEON Bike Co., Ltd. in May 2016 and became a director of R.O.U Co., Ltd. in March 2015. Mr. Hisanaga received his bachelor's degree in Commerce from the Hannan University.

NON-EXECUTIVE DIRECTORS

Mr. GOTO Toshiya

Mr. Goto (aged 63) was appointed as Non-executive Director and the Chairman of the Board in April 2023 and March 2024 respectively. He is the executive officer of AEON Co in charge of China Business and the chairman of AEON (China) Co., Ltd. ("ACCL"). Mr. Goto joined ARCL in 1984. Since then, he was assigned to assume different positions in ARCL. He was appointed the president of Beijing AEON Co., Ltd. for the period from May 2011 to May 2013, and the president of Qingdao AEON Dongtai Co., Ltd. ("QADCL") for the period from May 2013 to February 2015. He was appointed as the director and executive vice president of ARCL in charge of Product and Inner-Casual business in March 2019 and subsequently appointed the director and executive vice president of ARCL in charge of Product in March 2020.

Mr. NAKAGAWA Isei

Mr. Nakagawa (aged 57) 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. In March 2024, he ceased to be the Chairman of the Board. He has become the President of ACCL since May 2021. Before he joined the Company, he was the managing director of QADCL. He joined AEON Co group in March 1990 and since then was assigned to assume different positions related to various operations in ARCL. He became the chairman of Maxvalu Hokuriku Co., Ltd. in August 2010, an executive director of ARCL in March 2013, and the managing director of QADCL in February 2015. Mr. Nakagawa graduated from the Toyo University with a bachelor's degree in Business Administration.

Mr. FUKUDA Makoto

Mr. Fukuda (aged 49) was appointed as Non-executive Director in May 2021. He is the general manager of Finance Department of AEON Co, the ultimate holding company of the Company. Mr. Fukuda joined AEON Co in April 2001. Since then, he was assigned to assume different positions in Corporate Branding Department, Corporate Strategy Department, Corporate Secretarial Department and Finance Department of AEON Co. In March 2021, Mr. Fukuda was appointed the general manager of Finance Department of AEON Co. He was appointed the corporate auditor of AEON Financial Service Co., Ltd. from May 2022 to May 2023. 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 57) was appointed as Non-executive Director in March 2022. He is the vice-president of ACCL. Mr. Inohara joined ARCL in 1991. Since then, he was assigned to assume different positions in ARCL and in AEON Co. 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, 永旺(湖北)商業有限公司, 永旺華東(蘇州)商業有限公司, GDA, ASC and Beijing AEON Co., Ltd..

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOW Chi Tong

Mr. Chow (aged 64) was appointed as Independent Non-executive Director in January 2016. He is an accountant in practice as a director of Ting Ho Kwan & Chan CPA Limited, Certified Public Accountants (Practising) and member of 2021 HKSAR Election Committee. Mr. Chow has over 36 years of experience in both accounting and auditing. He is a fellow member of Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales.

Mr. MIZUNO Hideto

Mr. Mizuno (aged 50) 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 is currently an independent director of 17LIVE Group Limited, a company listed on The Singapore Exchange. He holds a master degree in Business Architect from the Kanazawa Institute of Technology Japan, a bachelor's degree in Chemistry from the Carthage College USA and a bachelor's degree in Economics from the Keio University Japan.

Ms. SHUM Wing Ting

Ms. Shum (aged 35) was appointed as Independent Non-executive Director in December 2022. She is currently a practicing solicitor and civil celebrant of marriage in Hong Kong. She has experience in general legal practice with specialization in civil litigation and commercial law. Ms. Shum graduated from The Chinese University of Hong Kong with a bachelor degree in laws (LL.B.) in 2011 and completed her postgraduate certificate in laws in 2012. She also obtained her Master of laws Degree from the University of Hong Kong in 2019. Ms. Shum is currently a member of the Law Society of Hong Kong and an accredited general mediator of Hong Kong Mediation Accreditation Association Limited and the Law Society of Hong Kong.

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

SENIOR MANAGEMENT

Mr. LI Yat Ming

Mr. Li (aged 58) is the Assistant General Manager of Operations cum Kornhill Store Manager of the Company. He joined the Company in May 1994. Since then, he was assigned to assume different management positions related to store operations in the Company.

CORPORATE GOVERNANCE REPORT

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

The pace and degree of changes to the business environment will continue to increase. To respond to new customer and community expectations towards companies and the increased importance of responsibilities that companies are expected to fulfill, companies must not only pursue profits, but also contribute more than ever to the realization of prosperity and a sense of well-being for communities as a whole from a long-term, sustained perspective as caring corporate citizens. Committed to the promotion of such practice and high-quality and sustainable corporate development, the Company has been maintaining a corporate culture in which the leadership team and the employees of the Group have demonstrated mutual commitment. This not only reflects the values, philosophy and visions of the corporation, but also points to the direction for the achievement of the Group's strategic objectives and business strategies.

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

CORPORATE GOVERNANCE PRACTICE

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

The Company has adopted the code provisions contained in the Corporate Governance Code (the "Code") as set out in Appendix C1 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 complied throughout the year ended 31 December 2023 with the code provisions of the Code during the year.

BOARD OF DIRECTORS

Board Composition

As at the date of this annual report, the Board comprised a total of 9 Directors, being 2 Executive Directors, 4 Non-executive Directors and 3 Independent Non-executive Directors. The number of Independent Non-executive Directors represents one-third of the Board as required by Rule 3.10A of the Listing Rules. The list of the Directors and their biographies are set out on pages 22 to 23 of this annual report.

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

CORPORATE GOVERNANCE REPORT

Role of the Board

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

Board Process

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Attendance at Board Meetings

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

	Directors	Number of attendance
Executive Directors	Takenori Nagashima *(MD)*	12/12
	Shinya Hisanaga	12/12
	Isao Sugawara (Note 1)	3/3
Non-executive Directors	Isei Nakagawa *(Chairman)*	12/12
	Makoto Fukuda	12/12
	Toshiya Goto (Note 2)	9/9
	Hiroyuki Inohara	12/12
Independent Non-executive Directors	Chow Chi Tong	12/12
	Hideto Mizuno	12/12
	Shum Wing Ting	12/12

Notes:

1. Mr. Isao Sugawara resigned as an Executive Director and MD with effect from 28 March 2023 and there were 3 Board meetings held before his resignation.

2. Mr. Toshiya Goto was appointed as a Non-executive Director with effect from 1 April 2023 and there were 9 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 shall hold office until the next following annual general meeting of the Company and are eligible for re-election.

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

CORPORATE GOVERNANCE REPORT

Attendance at General Meetings

The attendance of the Directors at the Annual General Meeting ("AGM") held on 30 May 2023 and Extraordinary General Meetings ("EGM(s)") held on 25 August 2023, 31 October 2023 and 28 December 2023 respectively is as follows:

		Number of attendance	
	Directors	**AGM**	**EGMs**
Executive Directors	Takenori Nagashima *(MD)*	1/1	3/3
	Shinya Hisanaga	1/1	3/3
	Isao Sugawara (Note 2)	N/A	N/A
Non-executive Directors	Isei Nakagawa *(Chairman)*	1/1	3/3
	Makoto Fukuda	1/1	3/3
	Toshiya Goto	1/1	3/3
	Hiroyuki Inohara	1/1	3/3
Independent Non-executive Directors	Chow Chi Tong	1/1	3/3
	Hideto Mizuno	1/1	3/3
	Shum Wing Ting	1/1	3/3

Notes:

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

2. Mr. Isao Sugawara resigned as an Executive Director and MD before AGM and EGMs were held.

Independence of Independent Non-executive Directors

The Company has received annual confirmations of independence from all Independent Non-executive Directors 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 are given an induction after their appointment so as to ensure that they have appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business performance of the Group to the Directors. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirement to ensure compliance and upkeep of good corporate governance practices.

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

CORPORATE GOVERNANCE REPORT

The Company also arranged in-house training 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 training
Executive Directors	Takenori Nagashima *(MD)*	✓
	Shinya Hisanaga	✓
	Isao Sugawara	N/A
Non-executive Directors	Isei Nakagawa *(Chairman)*	✓
	Makoto Fukuda	✓
	Toshiya Goto	✓
	Hiroyuki Inohara	✓
Independent Non-executive Directors	Chow Chi Tong	✓
	Hideto Mizuno	✓
	Shum Wing Ting	✓

CHAIRMAN AND CHIEF EXECUTIVE

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

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

BOARD COMMITTEES

Nomination Committee

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

5. independence of the candidate;

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

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

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE REPORT

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

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

	Directors	Number of attendance
Non-executive Director	Isei Nakagawa *(Chairman)*	2/2
Independent Non-executive Directors	Chow Chi Tong	2/2
	Hideto Mizuno	2/2
	Shum Wing Ting	2/2

During 2023, the Nomination Committee performed the following duties:

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

– reviewed individual suitably qualified to become member 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 recommendation to the Board on the individual nominated for directorship;

– reviewed and nominated individual suitably qualified to become the new MD under Succession Planning;

– 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; and

– recommended the Board on the re-election of retiring Directors at the Annual General Meeting for 2023, and appointment/re-appointment of Committee Chairmen and Committee members.

Remuneration Committee

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

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

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

CORPORATE GOVERNANCE REPORT

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

	Directors	Number of attendance
Non-executive Director	Isei Nakagawa	2/2
Independent Non-executive Directors	Chow Chi Tong	2/2
	Hideto Mizuno	2/2
	Shum Wing Ting *(Chairman)*	2/2

During 2023, the Remuneration Committee performed the following duties:

– reviewed the remuneration of all 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 resigned Director and new Directors.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2023 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 during the year are set out as follows:

	Directors	Number of attendance
Non-executive Director	Isei Nakagawa	5/5
Independent Non-executive Directors	Chow Chi Tong *(Chairman)*	5/5
	Hideto Mizuno	5/5
	Shum Wing Ting	5/5

During 2023, the Audit Committee performed the following duties:

– reviewed the audited financial statements for the year ended 31 December 2022 with a recommendation to the Board for approval;

– reviewed the progress report on the external auditors' review work for the interim results for 2023;

– reviewed the un-audited financial statements for the six months ended 30 June 2023 with a recommendation to the Board for approval;

– reviewed the annual audit plan of the external auditors;

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 of audit schedule, audit planning, management letters and management's response) to the committee in respect of the annual results and interim results of the Company;

– met with the external auditors (without the presence 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 external auditors' independence;

– reviewed and was satisfied with the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions; and

– reviewed the Non-Assurance Services Pre-approval Policy.

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 or director of the existing auditing firm engaged by the Company during two years after he or she ceases to be a partner or director of the auditing firm.

CORPORATE GOVERNANCE FUNCTION

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

– to develop and review the Company's policies and practices on corporate governance;

– to review and monitor the training and continuous professional development of Directors and senior management;

– to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

– to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

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

COMPANY SECRETARY

The Company's secretarial functions are outsourced to an external service provider. Mr. Yeung Tze Shing, General Manager of Corporate Finance Division of the Company, was the primary corporate contact person at the Company with the external service provider during 2023. Following the retirement of Mr. Yeung with effect from 1 February 2024, Mr. Takenori Nagashima, MD, has become the primary corporate contact person at the Company as from that date.

According to Rule 3.29 of the Listing Rules, Mr. Chan Kwong Leung Eric, the Company Secretary, took no less than 15 hours of the relevant professional training during the year ended 31 December 2023.

CORPORATE GOVERNANCE REPORT

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 C3 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all existing Directors, the Company confirmed that they fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2023.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the year ended 31 December 2023, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The responsibilities of the Company's auditor, KPMG, are stated in the "Independent Auditor's Report" on pages 55 to 60 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 reviews 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 assessing 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 tiers of management are put together to determine the Group's key risk areas.

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

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

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

CORPORATE GOVERNANCE REPORT

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

As part of the Group's internal control systems, Connected Party Transaction Panel has been set up to assist the Directors to review and monitor the existing and proposed connected transactions of the Group. Regular Panel meetings are held nearly every other 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 such inside information, if any.

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

The Group has established (i) a whistleblowing policy and system and (ii) policies and procedures to promote and support anti-corruption, details of which can be found on page 20 of this annual report. Cases reported under the whistleblowing system will be timely dealt with by management and the results will be reported to the Audit Committee twice a year.

AUDITOR'S REMUNERATION AND AUDITOR RELATED MATTERS

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

Services rendered	**Fees paid/payable** HK$'000
Audit services – annual audit	5,680
Non-audit services:	
Taxation services	854
Other services	655
	7,189

CORPORATE GOVERNANCE REPORT

DIVERSITY

The Company recognizes and embraces the benefits of having a diverse Board and believes that Board diversity is an important element to enhance the quality of its performance and maintain 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 achieving diversity on the Board. Board diversity is achieved through consideration of a number of factors and measurable objectives as set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional expertise, skills, knowledge and length of service. Given the nature and business objectives of the Company, the Board has a balance of skill, experience and diversity perspectives appropriate for the requirements of the business of the Company.

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

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

The Company complied throughout the year ended 31 December 2023 with the gender diversity requirement under the code provisions of the Code during the year and considered it implemented the board diversity policy effectively in the year. The Company will identify or select candidate(s) recommended to the Nomination Committee, with or without assistance from external agencies, pursuant to the nomination criteria set out in the above paragraph as when necessary.

The gender ratio in the workforce are provided in the Environmental, Social and Governance Report on pages 11 to 21 of this annual report and the list of the senior management are set out on pages 22 to 23 of this annual report. The Company has not set up any measurable objectives for achieving gender diversity across the workforce as it is less relevant in practicing its "Customer-First" philosophy.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a General Meeting by Shareholders

General meetings 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 requisitions in writing for proposing resolutions or business to be dealt with at the annual general meeting. Shareholders should follow the requirements and procedures as set out in section 615 of the Companies Ordinance for putting forward a proposal at an annual general meeting.

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

INVESTOR RELATIONS

Constitutional Documents

There was no significant change in the Company's constitutional documents during the year ended 31 December 2023.

Shareholder Communication Policy

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

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

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023.

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 of 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 10 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 10 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 10 and in notes 5 and 6 to the consolidated financial statements. In addition, discussions of the Group's environmental policies and performances, relationships with its key stake holders 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 11 to 21 of this annual report.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2023 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 2023.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 61 to 62 of this annual report.

An interim dividend of 2.0 HK cents per share amounting to HK$5,200,000 was paid to the shareholders during the year. The Board did not recommend the payment of final dividend for the year ended 31 December 2023.

FIXED ASSETS

Details of the movements in the property, plant and equipment, right-of-use assets and investment properties of the Group during the year ended 31 December 2023 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 2023 were the retained profits of HK$151,591,000 (2022: HK$301,344,000).

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

During the year, the Company did not enter into any equity-linked agreements.

DIRECTORS

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

Executive Directors	
Mr. NAGASHIMA Takenori *(Managing Director)*	Appointed Managing Director on 28 March 2023
Mr. HISANAGA Shinya	
Mr. SUGAWARA Isao	Resigned on 28 March 2023
Non-executive Directors	
Mr. GOTO Toshiya *(Chairman)*	Appointed on 1 April 2023 and became the Chairman from 28 March 2024
Mr. NAKAGAWA Isei	Ceased to be the Chairman from 28 March 2024
Mr. FUKUDA Makoto	
Mr. INOHARA Hiroyuki	
Independent Non-executive Directors	
Mr. CHOW Chi Tong	
Mr. MIZUNO Hideto	
Ms. SHUM Wing Ting	
Ms. LAW Chi Yan Joyce	Resigned on 1 January 2023

In accordance with Article 104 of the Company's Articles of Association, all Directors shall retire from office at each annual general meeting. All retiring Directors shall be eligible for re-election.

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

At the Board meeting held on 28 March 2024, the Board was notified by Mr. Isei Nakagawa and Mr. Makoto Fukuda of their retirement with effect from the conclusion of the forthcoming annual general meeting and therefore, they would not offer themselves for re-election. All other retiring Directors, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

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:

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

UPDATED INFORMATION OF DIRECTORS

The change in the information of Director is set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Director	Details of change
MIZUNO Hideto	was appointed as independent director of 17LIVE Group Limited, a company listed on The Singapore Exchange, with effect from 8 December 2023.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

DIRECTORS' REPORT

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).

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 2023, the interests of the Directors and chief executive of the Company in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) The Company

Directors	Number of ordinary shares held as personal interests	Approximate percentage of interests
NAKAGAWA Isei	15,000	0.00577%
NAGASHIMA Takenori	12,000	0.00462%
HISANAGA Shinya	30,000	0.01154%

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

Directors	Number of shares held as personal interests (Note)	Approximate percentage of interests
NAKAGAWA Isei	2,400	0.00028%
HISANAGA Shinya	2,030	0.00023%
FUKUDA Makoto	1,000	0.00011%
GOTO Toshiya	6,300	0.00072%

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

Other than as disclosed above, at 31 December 2023, 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 transactions 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 RMB55,480,859. This amount does not exceed the relevant cap amount of RMB70,000,000 as shown in the announcement of the Company dated 9 June 2010.

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

DIRECTORS' REPORT

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

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

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

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

  (i) the provision of retail services;

  (ii) the operation of shopping centers; and

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

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

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

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

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

The total amount of fees payable by the Company for the year was HK$23,445,134. This amount does not exceed the relevant cap amount of HK$34,700,000 as shown in the announcement of the Company dated 30 September 2021.

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

DIRECTORS' REPORT

(iii) On 1 February 2023, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into the Renewal Agreement to renew the Master Agreement, which was for a term of three years from 15 April 2020 to 14 April 2023, in respect of the Commission Payment Transactions for a further term of three years from 15 April 2023 to 14 April 2026. 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 0.42% to 3.2% 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$10,353,179. This amount does not exceed the relevant aggregated cap amount of HK$15,400,000 as shown in the announcements of the Company dated 3 April 2020 and 1 February 2023 respectively.

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

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

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

DIRECTORS' REPORT

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

The total aggregated amount of service fees paid and payable by the Company Group to AEON Delight Group in the year was RMB36,139,425. This amount does not exceed the cap amount of RMB49,500,000 as shown in the announcement of the Company dated 30 June 2021.

(v) On 23 November 2015, the subsidiary of the Company, Guangdong Aeon Teem Co., Ltd. ("GDA") as lessee, and 永旺夢樂城（廣東）商業有限公司 ("AEON Mall") as lessor entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the premises located at Units B1F0078, 1F1008 and 2F2028 Basement 1 and Basement 2, 1 Yayun Avenue, Dalong Street, Panyu, Guangzhou to GDA for a term of 20 years. AEON Mall is an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction of the Company. In accordance with the Tenancy Agreement, GDA pays rent, management fees, utility expenses and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time rent or employ with the consent of AEON Mall. The total amount of rent, management fees, utility expenses and other fees paid and payable by GDA for the year was RMB28,931,979. This amount does not exceed the cap amount of RMB49,600,000 as shown in the announcement of the company dated 23 November 2015.

(vi) On 22 February 2022, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into a renewal agreement to renew the Master Agreement in relation to the sales of the Company's Gift Certificates to ACS for a term of three years from 1 March 2022 to 28 February 2025. The renewed Master Agreement was renewed on substantially the same terms as the Master Agreement that was entered on 26 February 2019 and expired on 28 February 2022. The Company and ACS are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, and ACS is therefore a connected person of the Company. The entering into the renewed Master Agreement constitutes continuing connected transactions of the Company. Pursuant to the renewed Master Agreement, the Company sells its Gift Certificates to ACS at face value. The total amount of Gift Certificates sold by the Company to ACS in the year was HK$13,681,920. This amount does not exceed the relevant cap amount of HK$16,500,000 as shown in the announcement of the Company dated 22 February 2022.

DIRECTORS' REPORT

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

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

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

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

The total amount of Consultancy Services fees and training fees paid and payable by the Company, GDA and ASC to AEON China in the year was RMB9,981,988. This amount does not exceed the cap amount of RMB15,900,000 as shown in the announcement of the Company dated 4 October 2021.

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

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

DIRECTORS' REPORT

The transaction amount of the Master Services Agreement in the year was RMB41,358,843. This amount does not exceed the relevant cap amount of RMB56,500,000 as shown in the announcement of the Company dated 21 October 2022 respectively.

(ix) On 25 July 2023, 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 31 July 2020 which expired on 29 August 2023. Pursuant to which ADMC shall provide the Services (as defined in the announcement dated 23 July 2023) 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 2023 to 29 August 2026. 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 RMB16,676,128. This amount does not exceed the aggregated cap amount of RMB27,200,000 as shown in the announcements of the Company dated 4 December 2020 and 25 July 2023 respectively.

(x) On 15 December 2023, 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 previous Master Agreements were entered into by the parties on 15 December 2020 and expired on 18 December 2023. The term of the Master Agreement shall be a period of three years from 19 December 2023 to 18 December 2026. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions of the Company. GDA's leased premises are located in the Dali Mall and AMBM is the head tenant of the Dali Mall. AMBM, as head tenant, is responsible for making payment of utilities expenses and property management fees in respect of the entire Dali Mall. The amounts paid by GDA to AMBM pursuant to the Master Agreement represent GDA's proportionate contribution to such expenses and fees, which will then be paid by AMBM to relevant authorities or parties on behalf of GDA. The rates for utilities expenses and property management fees are no less favourable than those applicable to AMBM or its other tenants. The total aggregated amount of the fees paid and payable by the GDA to AMBM in the year was RMB5,335,834. This amount does not exceed the aggregated cap amount of RMB6,170,000 as shown in the announcements of the Company dated 15 December 2020 and 15 December 2023.

DIRECTORS' REPORT

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

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

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

(ii) establish product specifications;

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

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

(v) provide information on promotion; and

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

The total aggregated amount of the fees paid and payable by the Group to TopV Group in the year was HK$11,238,076. This amount does not exceed the relevant cap amount of HK$41,800,000 as shown in the announcement of the Company dated 30 June 2021.

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

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

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.

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

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

The total aggregated amount of the fees paid and payable by GDA to AMBM in the year was RMB4,130,093. This amount does not exceed the relevant cap amount of RMB6,800,000 as shown in the announcement of the Company dated 16 December 2021.

(xiii) On 30 March 2023, 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 2023 to 31 March 2024 at the licence fees of HK$244,581 per month exclusive of government rates and management fees. The previous Licence Agreement entered between the Company and ACS on 25 March 2022 was for a term from 1 April 2022 to 31 March 2023. 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 pay to the Company:

(i) a licence fees of HK$244,581 per month;

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

(iii) all charges for utilities in respect of the Shop;

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

(v) a deposit of HK$489,162.

DIRECTORS' REPORT

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 HKD3,219,001. This amount does not exceed the aggregated relevant cap amount of HKD3,560,000 as shown in the relevant announcements of the Company dated 25 March 2022 and 30 March 2023 respectively.

(xiv) On 13 December 2022, 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 1 January 2023 and expired on 31 December 2023. 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 5.8% of the total purchase price (excluding tax) paid by ATV China for the purchase of the Relevant ATV Products. The fee was determined taking into account the proportion of respective benefits enjoyed by ATV China and corresponding consideration that shall be paid by ATV China for the efforts of ASC in the design and development of the Relevant ATV Products.

The total amount of the fees received and receivable by ASC in the year was RMB2,681,779. This amount does not exceed the cap amount of RMB5,000,000 as shown in the announcement of the Company dated 13 December 2022.

DIRECTORS' REPORT

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

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

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

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

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

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

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

The total aggregated amount of the rent, management fees, utilities expenses and other fees paid by GDA to AEON Mall in the year was RMB4,789,799. This amount does not exceed the Revised cap amount of RMB6,700,000 as shown in the announcement of the Company dated 22 October 2021.

(xvi) 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.

DIRECTORS' REPORT

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$14,744,027. This amount does not exceed the cap amount of HK$23,200,000 as shown in the announcement of the Company dated 30 June 2021.

(xvii) On 28 February 2023, 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. G04 on G/F ("Shop") of the Company's store premises located at the Shop Nos. G081-G112 on Ground Floor, Shop Nos. UG082-UG120 on the Upper Ground Floor and Shop Nos.1301-1350 on First Floor of Commercial Accommodation of Tuen Mun Town Plaza, Phase I, 1 Tuen Shing Street, Tuen Mun, New Territories, Hong Kong ("Premises") for a fixed term of one year from 28 February 2023 to 27 February 2024 at the licence fees of HK$282,426 per month exclusive of government rates and management fees. The previous Licence Agreement entered between the Company and ACS on 6 April 2022 in respect of Shop No. G02 on G/F of the Premises expired on 31 March 2023. 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 pay to the Company:

(i) a licence fees of HK$282,426 per month;

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

(iii) all charges for utilities in respect of the Shop;

(iv) a monthly management fees of HK$13,710 or such other increased rate as the Company shall from time to time decide;

(v) a fitting out management fee of HK$43,872;

(vi) a grand opening promotion levy of HK$9,000; and

(vii) a deposit of HK$564,852.

DIRECTORS' REPORT

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, utilities charges and other fees paid and payable by ACS to the Company for the period from 28 February 2023 to 31 December 2023 was HKD3,417,005. This amount does not exceed the aggregated relevant cap amount of HKD3,800,000 as shown in the announcement of the Company dated 28 February 2023.

(xviii) On 17 April 2023, the Company and AEON Global Merchandising Company Limited ("AGMd") entered into the Master Agreement, pursuant to which the Company purchases from AGMd merchandise of various popular brands which are made widely available in the market by the respective brand owners who are third parties independent of AEON Co., Ltd. ("NB Merchandise") for a term of 3 years from 17 April 2023 to 16 April 2026. AGMd is connected person by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Master Agreement constitute continuing connected transactions of the Company.

Pursuant to the Master Agreement, the Company may purchase a variety of the NB Merchandise in respect of which AGMd will charge at a price being the Actual Costs plus a mark-up rate of 3% of the Actual Costs. The total price shall be inclusive of the merchandise costs, agency fee, provision of the product information, administration fee, sample fee, system registration fee and all other services incidental to the sale of the NB Merchandise by AGMd. The prices offered by AGMd shall be no less favourable than (i) the prices available in the market for the same or similar merchandises and (ii) the prices offered by AGMd to its other purchaser(s), if any, save and except certain differences in prices arising out of the difference in the relative location and the actual freight costs applicable to a purchasing party. There is no other fees payable by the Company in respect of the deliveries of the NB Merchandise to the Company's warehouse in Japan.

The total aggregated amount of the purchase prices paid by the Company to AGMd in the year was HK$7,209,485. This amount does not exceed the cap amount of HK$8,400,000 as shown in announcements of the Company dated 17 April 2023 and 29 November 2023.

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.

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. The Company considers all of the Independent Non-Executive Directors are independent.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2023, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

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

Note: These shares are held as to 155,760,000 shares by AEON Co., Ltd. and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS"). ACS is owned by AEON Co., Ltd., as to 286,088,000 shares representing 68.13% of the issued share capital of ACS. AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

Other than as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company as at 31 December 2023.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$2,023,000.

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 did 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) have any interest in these major customers and suppliers.

DIRECTORS' REPORT

EMOLUMENT POLICY

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

RETIREMENT SCHEMES

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

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

The consolidated financial statements for the years ended 31 December 2022 and 2023 of the Group have been audited by KPMG. At the forthcoming annual general meeting, KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting to re-appoint KPMG as auditor of the Company.

On behalf of the Board

I. nakagawa

NAKAGAWA Isei
Chairman

Hong Kong, 28 March 2024

INDEPENDENT AUDITOR'S REPORT

KPMG

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

OPINION

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited ("the Company") and its subsidiaries ("the Group") set out on pages 61 to 129, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes, comprising material accounting policy information and other explanatory information.

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 2023 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 these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Assessment of the Group's ability to continue as a going concern

Refer to notes 3.1 and 4 to the consolidated financial statements

THE KEY AUDIT MATTER

As at 31 December 2023, the Group had net current liabilities of HK$683,710,000 and net liabilities of HK$94,427,000 and during the year ended 31 December 2023, the Group recorded a net loss of HK$187,802,000 and net cash outflows of HK$347,183,000. Note 3.1 to the consolidated financial statements explains how the directors of the Company have taken into account certain plans and measures to form a judgement that the going concern basis is appropriate in preparing the consolidated financial statements of the Group.

The directors of the Company made their assessment of the Group's ability to continue as a going concern by preparing a cash flow forecast in which certain key assumptions were applied. These key assumptions included forecasts of sales and gross margin to operate the Group's retail stores. The directors of the Company have also considered alternative source of cash inflows through obtaining financial assistance from the parent of the Company, AEON Co., Ltd., according to the latest funding requirement based on the cash flow forecast as approved by the directors of the Company.

Based on the assessment, the directors of the Company concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

We identified the assessment of 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 as a key audit matter because a significant degree of management judgement is involved in making this assessment and in forecasting the future cash flows of the Group which are inherently uncertain.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

Our audit procedures in respect of the directors' assessment of 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 included the following:

- assessing and challenging the key assumptions used by management in the cash flow forecast (i.e. forecasted sales and gross margin) and evaluating whether there were any indicators of management bias by comparing the key assumptions to historical trends and market and other externally available information;

- assessing the intention and ability of AEON Co., Ltd. to provide sufficient and appropriate financial assistance from time to time as and when necessary and the legality and enforceability of such assistance; and

- performing sensitivity analyses of the key assumptions, i.e. future revenue growth rates and gross margin, adopted in the cash flow forecast prepared by management and assessing the impact on the conclusions of the going concern assessment;

- Evaluating the related disclosure in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT

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

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

THE KEY AUDIT MATTER

At 31 December 2023, the net book value of the Group's property, plant and equipment and right-of-use assets, amounted to HK$399,945,000 and HK$2,312,166,000, respectively.

Management has determined each individual retail store as a separate cash-generating unit ("CGU"). Management reviews the performance of individual CGU to identify if there are any impairment indicators on the allocated assets of the CGUs which mainly comprise property, plant and equipment and right-of-use assets. Where impairment indicators are identified, management performs an impairment assessment of the CGUs by determining the recoverable amount of the CGUs, which is the higher of fair value less costs of disposal and value in use, and then comparing the carrying value of the allocated assets of the CGUs with the recoverable amount of the CGUs. Based on the impairment assessments performed by management, impairment loss on property, plant and equipment of HK$2,186,000 was recognised in profit or loss for the year ended 31 December 2023.

HOW THE MATTER WAS ADDRESSED IN OUR AUDIT

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

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

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

- comparing the key assumptions used in the discounted cash flow forecasts prepared by management, including future revenue growth rates and gross margins, with the historical performance and up-to-date approved budgets of the identified CGUs;

INDEPENDENT AUDITOR'S REPORT

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

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
We identified the assessment of impairment of property, plant and equipment and right-of-use assets as a key audit matter because of the significance of the carrying value of such assets to the consolidated financial statements and because of, for value in use assessment, the determination of key assumptions used in the discounted cash flow forecasts, including future revenue growth rates, gross margins and discount rates; and for fair value less costs of disposal assessment, market rents and market yields, which are subject to a significant degree of judgement and could be subject to management bias.	• with the assistance of our internal valuation specialists, evaluating the methodology used by management in the preparation of its discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing the discount rates used in the discounted cash flow forecasts by benchmarking against other similar retailers; • performing sensitivity analysis of the significant inputs, including future revenue growth rates, gross margins and the discount rates used in the discounted cash flow forecasts prepared by management and considered the resulting impact on the impairment charge for the period and whether there were any indicators of management bias; • comparing the actual results of the identified CGUs for the current year with the key assumptions adopted by management in the discounted cash flow forecasts for prior year to assess the effectiveness of the management's forecasting process and consider if there was any indication of management bias; For those identified CGUs with significant carrying value where the recoverable amounts were determined based on fair value less costs of disposal: • evaluating key assumptions used in determining the fair value less cost of disposal of the identified CGUs, including market rents and market yields; and evaluating the methodology used in the independent professional valuer's report with reference to the requirements of the prevailing accounting standards, with the assistance from our internal valuation specialists; and • assessing the external valuer's qualifications, experience, competence and objectivity.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants

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

28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 HK$'000	2022 HK$'000
Revenue	5	**8,692,870**	9,571,321
Other income	7	**483,092**	483,692
Investment income	8	**26,137**	22,215
Interest income from rental deposits		**11,215**	10,802
Purchase of goods and changes in inventories		**(6,154,497)**	(6,750,962)
Staff costs		**(1,013,050)**	(1,100,476)
Depreciation of investment properties	21	**(65,878)**	(68,861)
Depreciation of property, plant and equipment	18	**(147,012)**	(179,290)
Depreciation of right-of-use assets	19	**(702,484)**	(733,304)
Leases expenses		**(74,685)**	(73,253)
Other expenses	9	**(1,062,914)**	(1,122,805)
Pre-operating expenses	10	**(3,903)**	(2,866)
Other gains and losses	11	**14,505**	(39,186)
Interest on lease liabilities		**(188,676)**	(236,545)
Loss before tax		**(185,280)**	(219,518)
Income tax expense	12	**(2,522)**	(5,198)
Loss for the year	13	**(187,802)**	(224,716)
Loss for the year attributable to:			
Owners of the Company		**(188,659)**	(219,872)
Non-controlling interest		**857**	(4,844)
		(187,802)	(224,716)
Loss per share (basic and diluted)	17	**(72.56) HK cents**	(84.57) HK cents

The notes on pages 68 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

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

The notes on pages 68 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment	18	**399,945**	431,155
Right-of-use assets	19	**2,312,166**	2,496,964
Investment properties	21	**278,725**	280,181
Equity instruments at FVTOCI	22	**20,752**	18,925
Pledged bank deposits	23	**13,744**	22,643
Time deposits	29	**6,801**	6,068
Deferred tax assets	25	**23,727**	25,670
Rental and related deposits paid	26	**157,200**	220,507
		3,213,060	3,502,113
Current assets			
Inventories	27	**837,475**	892,697
Receivables, prepayments and deposits	26	**212,629**	152,495
Amounts due from fellow subsidiaries	28	**76,045**	59,025
Pledged bank deposits	23	**90,164**	7,785
Time deposits	29	**362,484**	289,524
Bank balances and cash	30	**787,149**	1,133,879
		2,365,946	2,535,405
Current liabilities			
Trade payables	31	**1,192,958**	1,088,346
Other payables, accrued charges and other liabilities	31	**724,141**	731,711
Lease liabilities	32	**676,027**	827,036
Contract liabilities	31	**398,404**	436,711
Dividend payable		**206**	213
Amount due to ultimate holding company	33	**24,567**	27,030
Amounts due to fellow subsidiaries	33	**33,165**	39,918
Tax payable	24	**188**	187
		3,049,656	3,151,152
Net current liabilities		**(683,710)**	(615,747)
Total assets less current liabilities		**2,529,350**	2,886,366

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 HK$'000	2022 HK$'000
Non-current liabilities			
Rental deposits received and other liabilities	31	**91,010**	130,200
Lease liabilities	32	**2,532,767**	2,654,292
		2,623,777	2,784,492
Net (liabilities)/assets		**(94,427)**	101,874
Capital and reserves			
Share capital	34	**115,158**	115,158
Reserves		**(312,896)**	(115,432)
Deficit attributable to shareholders of the Company		**(197,738)**	(274)
Non-controlling interest		**103,311**	102,148
Total (deficit)/equity		**(94,427)**	101,874

Approved and authorised for issue by the board of directors on 28 March 2024.

I. nakagawa T. Nagashima

ISEI NAKAGAWA
Director

TAKENORI NAGASHIMA
Director

The notes on pages 68 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Attributable to owners of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	People's Republic of China (the "PRC") statutory reserve HK$'000	Non-distributable reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2023	**115,158**	**16,521**	**47,178**	**35,526**	**134,535**	**(349,192)**	**(274)**	**102,148**	**101,874**
(Loss)/profit for the year	-	-	-	-	-	(188,659)	(188,659)	857	(187,802)
Other comprehensive income/(loss) for the year	-	1,827	(244)	-	-	-	1,583	306	1,889
Total comprehensive income/(loss) for the year	-	1,827	(244)	-	-	(188,659)	(187,076)	1,163	(185,913)
Transfer of reserves	-	-	-	(29,758)	-	29,758	-	-	-
Dividends recognised as distribution (note 16)	-	-	-	-	-	(10,400)	(10,400)	-	(10,400)
Unclaimed dividends forfeited	-	-	-	-	-	12	12	-	12
At 31 December 2023	**115,158**	**18,348**	**46,934**	**5,768**	**134,535**	**(518,481)**	**(197,738)**	**103,311**	**(94,427)**

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

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

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

The notes on pages 68 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 HK$'000	2022 HK$'000
Operating activities			
Loss before tax		**(185,280)**	(219,518)
Adjustments for:			
Depreciation of investment properties	21	**65,878**	68,861
Depreciation of property, plant and equipment	18	**147,012**	179,290
Depreciation of right-of-use assets	19	**702,484**	733,304
Interest on lease liabilities		**188,676**	236,545
Interest income from rental deposits		**(11,215)**	(10,802)
Impairment loss recognised in respect of property, plant and equipment	11	**2,186**	26,749
Impairment loss recognised in respect of right-of-use assets	11	**–**	1,925
Investment income	8	**(26,137)**	(22,215)
Loss on disposal/write-off of property, plant and equipment	11	**2,456**	4,899
Write-back of inventories	13	**(1,127)**	(3,353)
Gain on lease modifications	11	**(13,031)**	(19,921)
Operating cash flows before movements in working capital		**871,902**	975,764
Decrease in inventories		**57,862**	15,024
Decrease/(increase) in receivables, prepayments and deposits		**19,813**	(56)
Increase in amounts due from fellow subsidiaries		**(15,071)**	(537)
Increase/(decrease) in trade payables		**102,119**	(141,355)
Decrease in other payables, accrued charges and other liabilities		**(54,507)**	(16,522)
(Decrease)/increase in contract liabilities		**(39,916)**	880
Decrease in amount due to ultimate holding company		**(2,463)**	(566)
(Decrease)/increase in amounts due to fellow subsidiaries		**(11,561)**	5,363
Cash generated from operations		**928,178**	837,995
Income taxes paid		**(476)**	(540)
Interest on bank deposits and time deposits received		**20,653**	27,676
Net cash from operating activities		**948,355**	865,131

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 HK$'000	2022 HK$'000
Investing activities		
Placement of pledged bank deposits	**(77,373)**	(5,074)
Withdrawal of pledged bank deposits	**3,989**	6,650
Dividends from equity instruments at FVTOCI	**1,749**	1,674
Purchase of property, plant and equipment	**(113,417)**	(93,076)
Proceeds from disposal of property, plant and equipment	**55**	496
Payment for right-of-use assets	**(1,453)**	(1,563)
Net receipt/(payment) for rental deposits	**507**	(4,365)
Placement of time deposits	**(349,041)**	(314,327)
Withdrawal of time deposits	**274,564**	283,973
Net cash used in investing activities	**(260,420)**	(125,612)
Financing activities		
Dividend paid	**(10,394)**	(12,999)
Interest on lease liabilities	**(188,676)**	(236,545)
Repayments of lease liabilities	**(836,048)**	(828,937)
Cash used in financing activities	**(1,035,118)**	(1,078,481)
Net decrease in cash and cash equivalents	**(347,183)**	(338,962)
Cash and cash equivalents at 1 January	**1,133,879**	1,547,893
Effect of foreign exchange rate changes	**453**	(75,052)
Cash and cash equivalents at 31 December, represented by bank balances and cash	**787,149**	1,133,879

The notes on pages 68 to 129 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 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 People's Republic of China (the "PRC") is Renminbi ("RMB").

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

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

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

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

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

HKFRS 17, Insurance contracts

HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of HKFRS 17.

Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in note 25, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

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

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

(iii) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the company.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")*	1 January 2024
Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*	1 January 2024
Amendments to HKAS 7, *Statement of cash flows* and HKFRS 7, *Financial Instruments: Disclosures: Supplier finance arrangements*	1 January 2024
Amendments to HKAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	1 January 2025

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.1 Basis of preparation of consolidated financial statements

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

As at 31 December 2023, the Group had net current liabilities of HK$683,710,000 and net liabilities of HK$94,427,000 and during the year ended 31 December 2023, the Group recorded a net loss of HK$187,802,000 and net cash outflows of HK$347,183,000. In view of such circumstances, the directors of the Company have given careful consideration of the liquidity requirements for the Group's operations, the performance of the Group and available sources of financing in assessing whether the Group has sufficient financial resources to continue as a going concern. The directors have reviewed the Group's cash flow forecast prepared by management which covers a period of at least twelves months from 31 December 2023. The directors have also taken into account that AEON Co., Ltd., the Company's immediate and ultimate holding company, has confirmed that it will continue to provide sufficient support to the Group to enable it to continue its operations and to meet its liabilities as and when they fall due.

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.1 Basis of preparation of consolidated financial statements (Continued)

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 Material 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Revenue from contracts with customers

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

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

Revenue arising from recognition of unutilised balances on aged prepaid cards

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

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

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

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

Principal versus agent

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material 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 2023

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

3.2 Material 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 2023

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

3.2 Material 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 2023

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

3.2 Material accounting policies (Continued)

Foreign currencies

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

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

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

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

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

Government grants

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

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

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

Pre-operating expenses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

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.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Taxation (Continued)

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.

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.

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

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Investment properties

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

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

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

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

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

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

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

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

Inventories

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

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

Provisions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment assessment of financial assets under HKFRS 9

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

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

The Group always recognises lifetime ECL for trade receivables.

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

(i) Significant increase in credit risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment assessment of financial assets under HKFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment assessment of financial assets under HKFRS 9 (Continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment assessment of financial assets under HKFRS 9 (Continued)

(v) Measurement and recognition of ECL (Continued)

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

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

Derecognition of financial assets

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

3.2 Material accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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.

Assessment of the Group's ability to continue as a going concern

In determining whether an assumption the Group is able to operate as a going concern is appropriate, 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 cash flow forecast in the coming twelve months from the end of the financial period and period beyond the management's assessment; (2) the appropriate key assumptions to be applied in the cash flow forecast including forecasted sales and gross margin; and (3) the intention and ability of AEON Co., Ltd. to provide sufficient and appropriate support from time to time as and when is necessary. Changing the assumptions and estimates could materially affect the going concern assessment.

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

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

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

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

4 KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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.

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 2023

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

For the year ended 31 December 2022

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Direct sales	4,263,554	4,761,238	9,024,792
Income from concessionaire sales	321,757	224,772	546,529
	4,585,311	4,986,010	9,571,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

5 REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Direct sales

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

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

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

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

There is no term on goods return under the Group's standard contract but generally the Group allows the customers to exchange the goods within one week in the case of defect items. Because the sales amount returned has been steady for years, it is highly probably that a significant reversal in the cumulative revenue recognised will not occur.

Income from concessionaire sales

Under concessionaire sales, the Group is responsible for arranging licensees to sell their own goods in the retail stores of the Group. Income from concessionaire sales is recognised when the goods of the licensees have been sold, based on certain percentage of the sales amount.

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

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

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 Mainland China as the two reportable segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6 OPERATING SEGMENTS (Continued)

Segment revenues and results

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

For the year ended 31 December 2023

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

For the year ended 31 December 2022

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

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

Inter-segment revenue is charged at cost.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6 OPERATING SEGMENTS (Continued)

Other segment information

For the year ended 31 December 2023

	Hong Kong HK$'000	**Mainland China HK$'000**	**Segment total HK$'000**
Amounts included in the measure of segment loss:			
Depreciation of investment properties	**37,659**	**28,219**	**65,878**
Depreciation of property, plant and equipment	**68,156**	**78,856**	**147,012**
Depreciation of right-of-use assets	**500,795**	**201,689**	**702,484**
Impairment loss recognised in respect of property, plant and equipment	**–**	**2,186**	**2,186**
Loss on disposal/write-off of property, plant and equipment	**33**	**2,423**	**2,456**
Gain on lease modifications	**–**	**(13,031)**	**(13,031)**
Write-back of inventories	**–**	**(1,127)**	**(1,127)**
Interest on lease liabilities	**102,649**	**86,027**	**188,676**

For the year ended 31 December 2022

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6 OPERATING SEGMENTS (Continued)

Geographical information

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

	2023 **HK$'000**	2022 HK$'000
Hong Kong	**1,468,269**	2,014,014
Mainland China	**1,679,767**	1,414,793
	3,148,036	3,428,807

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

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

During the year, the Group recognised government grants of HK$Nil (2022: HK$26,400,000) from Places of Public Entertainment Licence Holder Subsidy Scheme, Food Licence Holders Subsidy Scheme and Employment Support Scheme under Anti-Epidemic Fund of the Hong Kong Government, and HK$751,000 (2022: HK$2,590,000) relating to subsidies granted by municipal governments in Mainland China.

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

8 INVESTMENT INCOME

	2023 HK$'000	2022 HK$'000
Dividends from equity instruments at FVTOCI	**1,749**	1,674
Interest from bank and time deposits	**24,388**	20,541
	26,137	22,215

9 OTHER EXPENSES

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

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 2023 are staff costs of HK$2,906,000 (2022: HK$1,331,000).

11 OTHER GAINS AND LOSSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

12 INCOME TAX EXPENSE

	2023 HK$'000	2022 HK$'000
The charges comprise:		
Current tax		
PRC withholding tax	**476**	540
	476	540
Deferred tax (note 25)		
Current year	**2,046**	4,658
Income tax expense for the year	**2,522**	5,198

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

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

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

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:

	2023 HK$'000	2022 HK$'000
Loss before tax	**(185,280)**	(219,518)
Notional tax on loss before tax, calculated at the rates applicable in the relevant tax jurisdictions	**(34,514)**	(44,794)
Tax effect of expenses not deductible for tax purpose	**1,695**	5,867
Tax effect of income not taxable for tax purpose	**(4,520)**	(9,772)
Tax effect of temporary difference not recognised	**(7,238)**	615
Tax effect of tax losses not recognised	**46,623**	52,742
Withholding tax on interest income arising from intercompany borrowings	**476**	540
Income tax expense	**2,522**	5,198

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

13 LOSS FOR THE YEAR

	2023 HK$'000	2022 HK$'000
Loss for the year has been arrived at after charging/(crediting):		
Auditor's remuneration		
– audit services	**5,680**	5,609
– tax services	**854**	684
– other services	**655**	644
Expenses relating to		
– short-term leases and leases of low-value assets	**12,055**	12,754
– variable lease payment (Note)	**66,378**	61,644
	78,433	74,398
Contributions to defined contribution schemes	**87,485**	96,272
Gross rental income from investment properties		
– fixed	**(204,396)**	(243,244)
– variable (Note)	**(127,436)**	(103,812)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**94,996**	97,887
	(236,836)	(249,169)
Cost of inventories recognised as an expense	**6,154,497**	6,750,962
Write-back of inventories (included in purchase of goods and changes in inventories)	**(1,127)**	(3,353)

Following by a series of promotion campaign in Mainland China retail stores during the year, write-back of inventories amounting to HK$1,127,000 (2022: HK$3,353,000) 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 2023

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					
	Isao Sugawara HK$'000 (Note a)	Chak Kam Yuen HK$'000 (Note b)	Takenori Nagashima HK$'000	Shinya Hisanaga HK$'000	Isei Nakagawa HK$'000	Yuki Habu HK$'000 (Note b)	Hiroyuki Inohara HK$'000 (Note d)	Makoto Fukuda HK$'000	Toshiya Goto HK$'000 (Note c)	Chan Yi Jen, Candi Anna HK$'000 (Note b)	Chow Chi Tong HK$'000	Hideto Mizuno HK$'000	Law Chi Yan, Joyce HK$'000 (Note e)	Shum Wing Ting HK$'000 (Note d)	Total HK$'000
For the year ended 31 December 2023															
Fees	**-**	**-**	**-**	**-**	**84**	**-**	**80**	**-**	**23**	**-**	**200**	**190**	**-**	**200**	**777**
Other emolument															
Salaries and other benefits	**474**	**-**	**1,944**	**1,025**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,443**
Performance based bonus (Note f)	**150**	**-**	**226**	**146**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**522**
Contributions to retirement benefits schemes	**42**	**-**	**147**	**140**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**329**
Total	**666**	**-**	**2,317**	**1,311**	**84**	**-**	**80**	**-**	**23**	**-**	**200**	**190**	**-**	**200**	**5,071**
For the year ended 31 December 2022															
Fees	–	29	–	–	86	–	46	–	–	82	200	190	179	5	817
Other emolument															
Salaries and other benefits	1,454	489	1,666	1,151	–	–	–	–	–	–	–	–	–	–	4,760
Performance based bonus (Note f)	114	195	86	95	–	–	–	–	–	–	–	–	–	–	490
Contributions to retirement benefits schemes	169	31	149	155	–	–	–	–	–	–	–	–	–	–	504
Total	1,737	744	1,901	1,401	86	–	46	–	–	82	200	190	179	5	6,571

Notes:

(a) Director was resigned/retired during the year ended 31 December 2023.

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

(c) Director was appointed during the year ended 31 December 2023.

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

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

(f) 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.

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.

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

15 EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2022: two) were directors whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining three (2022: three) individuals were as follows:

	2023 **HK$'000**	2022 HK$'000
Salaries and other benefits	**4,515**	4,536
Performance based bonus	**898**	326
Contributions to retirement benefit schemes	**214**	321
	5,627	5,183

	2023 **No. of employees**	2022 No. of employees
Their emoluments were within the following bands:		
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**2**	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.

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

15 EMPLOYEES' EMOLUMENTS (Continued)

Other than the emoluments of two directors and three (2022: three) senior management individuals of the Group disclosed in note 14 and above, the emoluments of the remaining two (2022: four) senior management of the Group were within the following bands:

	2023 No. of employees	2022 No. of employees
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**–**	1

16 DIVIDENDS

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

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

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$188,659,000 (2022: HK$219,872,000) and on 260,000,000 (2022: 260,000,000) ordinary shares in issue during the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 2022	1,928,450	765,744	2,849	33,807	2,730,850
Exchange adjustments	(109,415)	(40,890)	(234)	(1,106)	(151,645)
Additions	7,485	16,412	–	70,353	94,250
Transfer	49,869	46,433	–	(96,302)	–
Disposals/write-off	(282,578)	(45,277)	–	–	(327,855)
At 31 December 2022	**1,593,811**	**742,422**	**2,615**	**6,752**	**2,345,600**
Exchange adjustments	**3,126**	**1,111**	**9**	**(299)**	**3,947**
Additions	**7,163**	**30,539**	**–**	**81,752**	**119,454**
Transfer	**35,528**	**18,017**	**–**	**(53,545)**	**–**
Disposals/write-off	**(80,973)**	**(22,925)**	**(246)**	**–**	**(104,144)**
At 31 December 2023	**1,558,655**	**769,164**	**2,378**	**34,660**	**2,364,857**
Depreciation and impairment					
At 1 January 2022	1,539,940	607,304	2,835	–	2,150,079
Exchange adjustments	(86,564)	(32,414)	(235)	–	(119,213)
Provided for the year	111,482	67,793	15	–	179,290
Eliminated on disposal/write-off	(279,647)	(42,813)	–	–	(322,460)
Impairment losses recognised (note 20)	26,586	163	–	–	26,749
At 31 December 2022	**1,311,797**	**600,033**	**2,615**	**–**	**1,914,445**
Exchange adjustments	**2,278**	**790**	**9**	**–**	**3,077**
Provided for the year	**93,316**	**53,696**	**–**	**–**	**147,012**
Eliminated on disposal/write-off	**(78,578)**	**(22,809)**	**(246)**	**–**	**(101,633)**
Transfers	**(175)**	**–**	**–**	**–**	**(175)**
Impairment losses recognised (note 20)	**2,186**	**–**	**–**	**–**	**2,186**
At 31 December 2023	**1,330,824**	**631,710**	**2,378**	**–**	**1,964,912**
Carrying values					
At 31 December 2023	**227,831**	**137,454**	**–**	**34,660**	**399,945**
At 31 December 2022	282,014	142,389	–	6,752	431,155

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
FOR THE YEAR ENDED 31 DECEMBER 2023

19 RIGHT-OF-USE ASSETS

	Leased properties HK$'000
As at 31 December 2023	
Carrying amount	**2,312,166**
As at 31 December 2022	
Carrying amount	**2,496,964**
For the year ended 31 December 2023	
Depreciation charge	**702,484**
For the year ended 31 December 2022	
Depreciation charge	**733,304**
Impairment loss recognised	**1,925**

	2023 HK$'000	2022 HK$'000
Expense relating to short-term leases	**8,191**	4,756
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**9,739**	7,998
Variable lease payments not included in the measurement of lease liabilities	**66,378**	61,644
Total cash outflow for leases	**1,113,163**	1,141,367
Additions to right-of-use assets	**574,606**	173,538

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 (2022: one to twenty years), but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, following by a lease modification to shorten the lease term, the Group had derecognised right-of-use assets of HK$82,095,000 (2022: HK$20,209,000) and related lease liabilities of HK$95,126,000 (2022: HK$40,130,000), resulting into a gain on lease modification amounting to HK$13,031,000 (2022: HK$19,921,000) 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 2023 and 31 December 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases entered during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 12% (2022: 2% to 14%) sales and minimum annual lease payment that are fixed over the lease term. Some variable payment terms include cap clauses. The payment terms are common in retail stores in Hong Kong and Mainland China 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 2023

	Number of premises	**Fixed payments HK$'000**	**Variable payments HK$'000**	**Total payments HK$'000**
Retail stores, warehouse and office without variable lease payments	**30**	**310,796**	**–**	**310,796**
Retail stores with variable lease payments	**98**	**713,928**	**66,378**	**780,306**
	128	**1,024,724**	**66,378**	**1,091,102**

For the year ended 31 December 2022

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

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. 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.

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

19 RIGHT-OF-USE ASSETS (Continued)

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

	Lease liabilities recognised as at 31 December 2023 HK$'000	**Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2023 HK$'000**	Lease liabilities recognised as at 31 December 2022 HK$'000	Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2022 HK$'000
Retail stores, warehouse and office – Hong Kong	**1,541,540**	**36,545**	2,079,567	83,903
Retail stores, warehouse and office – Mainland China	**1,667,254**	**507,655**	1,401,761	787,887

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

For the cash-generating units which the recoverable amount was based on value in use, the calculations use cash flow projections based on the latest financial budgets approved by the management covering the unexpired lease terms of the relevant stores with a pre-tax discount rate of 9% to 11% (2022: 11% to 13%). Cash flow projections during the budget period were based on the projected revenue and expected gross margins and the budgeted revenue growths and margins have been determined based on past performance and management's expectations for the future changes in the market.

For the cash-generating units which the recoverable amount was based on fair value less costs of disposal, the fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (2022: Cushman & Wakefield Limited), an independent third party qualified valuer which has appropriate professional qualifications and recent experience in the valuations of similar assets in the relevant locations.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the right-of-use assets included in the cash-generating units are assessed and discounted at the market yield of a range of 4.3% – 5.5% per annum (2022: 4.3% – 5.0% per annum) expected by investors for this type of assets. The market rentals are assessed by reference to the rentals achieved in the lettable units of the assets as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar retail stores in Hong Kong and Mainland China and adjusted to take into account the market expectation form property investors to reflect factors specific to the Group's cash-generating units.

Based on the result of the assessment, management of the Group determined that the recoverable amounts of certain cash-generating units are lower than their carrying amounts. The impairment amount has been allocated to each category of the impaired cash-generating units, which mainly comprise property, plant and equipment, and right-of-use assets, such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the allocation, impairment loss of HK$2,186,000 and HK$Nil (2022: HK$26,749,000 and HK$1,925,000), has been recognised against the carrying amount of property, plant and equipment, and right-of-use assets, respectively.

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

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 (2022: one to fifteen years). The leases of retail stores contain variable lease payment that are based on 5.0% to 30.0% (2022: 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 2023, cash outflow for leases of HK$82,906,000 (2022: HK$93,460,000) represented the amounts paid for leased properties under sub-leases.

	Leased properties HK$'000
Cost	
At 1 January 2022	622,173
Exchange adjustments	(37,236)
Additions	13,887
Disposals	(15,716)
Reclassification to right-of-use assets (Note)	(31,270)
At 31 December 2022	**551,838**
Exchange adjustments	**134**
Additions	**95,883**
Disposals	**(37,474)**
Reclassification from right-of-use assets (Note)	**1,442**
At 31 December 2023	**611,823**
Depreciation	
At 1 January 2022	248,263
Exchange adjustments	(13,757)
Provided for the year	68,861
Write-back on disposals	(12,508)
Eliminated on reclassification to right-of-use assets (Note)	(19,202)
At 31 December 2022	**271,657**
Exchange adjustments	**61**
Provided for the year	**65,878**
Write-back on disposals	**(10,247)**
Eliminated on reclassification from right-of-use assets (Note)	**5,749**
At 31 December 2023	**333,098**
Carrying values	
As 31 December 2023	**278,725**
At 31 December 2022	280,181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

21 INVESTMENT PROPERTIES (Continued)

The fair value of the Group's investment properties at 31 December 2023 was HK$1,115,763,000 (2022: HK$1,172,444,000). The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (2022: Cushman & Wakefield Limited), an independent third party qualified valuer which has appropriate professional qualifications and recent experience in the valuations of similar properties in the relevant locations.

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 Mainland China 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:

	2023		2022	
	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	**69,762**	**205,050**	111,125	338,460
Retail stores located in Mainland China	**208,963**	**910,713**	169,056	833,984
	278,725	**1,115,763**	280,181	1,172,444

Note: The carrying amount of investment properties of HK$4,307,000 has been transferred from right-of-use assets (2022: carrying amount of investment properties of HK$12,068,000 has been transferred to right-of-use assets) because of the change of use by the Group for its own operation.

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

22 EQUITY INSTRUMENTS AT FVTOCI

	2023 HK$'000	2022 HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**20,752**	18,925

The listed shares in Hong Kong mainly represents an investment in a fellow subsidiary of HK$20,623,000 (2022: HK$18,769,000).

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

23 PLEDGED BANK DEPOSITS

	2023		2022	
	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	**13,744**	**83,454**	22,643	1,095
As requirement by the relevant Mainland China regulatory body for cash received from prepaid value cards sold	**–**	**6,710**	–	6,690
	13,744	**90,164**	22,643	7,785

Details of impairment assessment are set out in note 41.

24 CURRENT TAXATION

Current tax payable represents the provision for the PRC tax of HK$188,000 (2022: HK$187,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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	Right-of-use assets HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2022	1,397	(10,788)	(181,647)	224,621	33,583
Exchange adjustments	(223)	1,265	17,524	(21,821)	(3,255)
Credited/(charged) to profit or loss	1,238	(2,073)	26,590	(30,413)	(4,658)
At 31 December 2022	2,412	(11,596)	(137,533)	172,387	25,670
Exchange adjustments	**11**	**(77)**	**723**	**(554)**	**103**
(Charged)/credited to profit or loss	**(334)**	**3,696**	**(101,598)**	**96,190**	**(2,046)**
At 31 December 2023	**2,089**	**(7,977)**	**(238,408)**	**268,023**	**23,727**

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

	2023 HK$'000	2022 HK$'000
Deferred tax assets	**23,727**	25,670

(a) Deferred tax assets not recognised

Furthermore, the Group had unused tax losses of HK$1,229,434,000 (2022: HK$1,064,325,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams for the relevant subsidiary. Included in unrecognised tax losses are losses of HK$301,688,000 (2022: HK$309,890,000) that will expire as follows. Other losses may be carried forward indefinitely.

	2023 HK$'000	2022 HK$'000
To be expired by:		
31 December 2023	**–**	69,117
31 December 2024	**101,196**	106,216
31 December 2025	**29,802**	31,280
31 December 2026	**28,963**	30,399
31 December 2027	**69,435**	72,878
31 December 2028	**72,292**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

25 DEFERRED TAXATION (Continued)

(a) Deferred tax assets not recognised (Continued)

At the end of the reporting period, the Group had other deductible temporary difference of HK$761,721,000 (2022: HK$892,943,000). A deferred tax asset has been recognised in respect of deductible temporary difference of HK$94,909,000 (2022: HK$109,344,000). No deferred tax asset has been recognised in respect of the remaining deductible difference of HK$666,812,000 (2022: HK$783,599,000).

(b) Deferred tax liabilities not recognised

At 31 December 2023, temporary differences relating to the undistributed profits of the Group's Mainland China subsidiary amounted to HK$7,701,000 (2022: HK$Nil). Deferred tax liabilities of HK$385,000 (2022: HK$Nil) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits as the Company controls the dividend policy of the subsidiary and it has been determined that it is probable that the profits will not be distributed in the foreseeable future.

26 RECEIVABLES, PREPAYMENTS AND DEPOSITS

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

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

	2023 **HK$'000**	2022 HK$'000
Accounts receivable	**46,125**	38,876
Rental and related deposits paid	**246,411**	246,757
Other receivables, prepayments and other deposits	**77,293**	87,369
	369,829	373,002
Less: Rental and related deposits paid under non-current assets	**(157,200)**	(220,507)
Receivables, prepayments and deposits	**212,629**	152,495

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

27 INVENTORIES

Inventories represent merchandise held for retail sale.

During the year, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group has written back inventories of HK$1,127,000 (2022: written back inventories of HK$3,353,000) 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 (2022: 15 to 35 days). The amounts have an age of 0 to 35 days (2022: 0 to 35 days) since the invoice date and not yet due at the end of the respective reporting periods.

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

29 TIME DEPOSITS

As at 31 December 2023, time deposits represent deposits denominated in RMB amounting to HK$369,285,000, with an original maturity for more than three months. The average effective interest rate of those time deposits denominated in RMB is 2.46% per annum. The deposits will mature within one year from the end of the reporting period except for the time deposits of HK$6,801,000 which will mature after one year from the end of reporting period. Excluding the time deposit of $6,801,000, the amounts are classified as current assets.

As at 31 December 2023, time deposits represented deposits denominated in United States Dollars ("USD"), RMB and HKD amounting to HK$19,696,000, HK$236,068,000 and HK$39,828,000, respectively, with an original maturity for more than three months and one year. The average effective interest rates of those time deposits denominated in USD, RMB and HKD were 3.78%, 2.48% and 4.29%, per annum, respectively. The deposits would mature within one year from the end of the reporting period except for the time deposits of HK$6,068,000 which would mature after one year from the end of reporting period. Excluding the time of deposit of HK$6,068,000, these amounts were classified as current assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 0.88% to 5.20% (2022: 0.01% to 5.05%) per annum.

As at 31 December 2023, bank balances and cash situated in Mainland China amounts to HK$458,755,000 (2022: HK$561,806,000). Remittance of funds out of the PRC is subject to relevant rules and regulations of foreign exchange control.

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:

	2023 **HK$'000**	2022 HK$'000
HKD	**170**	167
USD	**5,687**	57,383
Japanese Yen ("JPY")	**9,310**	22,341
RMB	**1,862**	23,776

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

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

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

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

The average credit period on purchases of goods is 67 days (2022: 60 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

	2023 **HK$'000**	2022 HK$'000
Accrued expenses and other liabilities	**343,165**	392,991
Accrued staff costs	**259,562**	254,821
Value added tax payables for advance receipts on prepaid store-value cards	**5,846**	6,229
Payables for purchase of property, plant and equipment	**11,077**	12,287
Provision for reinstatement (Note)	**94,345**	95,428
Rental deposits received	**101,156**	100,155
	815,151	861,911
Less: Rental deposits received and other liabilities under non-current liabilities	**(91,010)**	(130,200)
Other payables, accrued charges and other liabilities	**724,141**	731,711

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 2022	96,754
Additional provision in the year	5,906
Utilisation of provision	(6,229)
Exchange realignments	(1,003)
At 31 December 2022	95,428
Additional provision in the year	4,353
Utilisation of provision	(5,483)
Exchange realignments	47
At 31 December 2023	**94,345**

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

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

The following is an analysis of contract liabilities:

	2023 HK$'000	2022 HK$'000
Advance receipts on prepaid store-value cards	**368,842**	393,393
Deferred revenue	**29,562**	43,318
	398,404	436,711

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:

	2023 HK$'000	2022 HK$'000
Balance at the beginning of the year	**436,711**	481,524
Decrease in contract liabilities as a result of recognising revenue during the year	**(578,688)**	(446,230)
Increase in contract liabilities as a result of receiving consideration	**538,772**	447,110
Exchange realignments	**1,609**	(45,693)
Balance at the end of the year	**398,404**	436,711

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 2023

32 LEASE LIABILITIES

	2023 **HK$'000**	2022 HK$'000
Lease liabilities payable:		
Within one year	**676,027**	827,036
Within a period of more than one year but not more than two years	**591,092**	662,981
Within a period of more than two years but not more than five years	**1,028,316**	1,215,042
Within a period of more than five years	**913,359**	776,269
	3,208,794	3,481,328
Less: Amount due for settlement within 12 months shown under current liabilities	**(676,027)**	(827,036)
Amount due for settlement after 12 months shown under non-current liabilities	**2,532,767**	2,654,292

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 (2022: 60 to 90 days). The amounts have an age of 60 to 90 days (2022: 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 2022, 31 December 2022, 1 January 2023 and 31 December 2023	260,000,000	115,158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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:

	2023 HK$'000	2022 HK$'000
Non-current assets		
Property, plant and equipment	**162,094**	184,831
Right-of-use assets	**1,105,957**	1,527,382
Investment properties	**69,762**	111,125
Investments in subsidiaries	**197,137**	197,137
Equity instruments at FVTOCI	**20,752**	18,925
Loan to a subsidiary	**223,805**	175,471
Rental and related deposits paid	**130,455**	190,675
	1,909,962	2,405,546
Current assets		
Inventories	**451,804**	490,681
Receivables, prepayments and deposits	**151,457**	82,173
Amounts due from subsidiaries	**19,457**	7,254
Amounts due from fellow subsidiaries	**59,380**	47,453
Pledged bank deposits	**73,562**	–
Time deposits	**–**	59,523
Bank balances and cash	**328,394**	572,072
	1,084,054	1,259,156
Current liabilities		
Trade payables	**629,208**	549,076
Other payables, accrued charges and other liabilities	**410,314**	427,380
Lease liabilities	**457,086**	601,035
Contract liabilities	**45,176**	49,029
Dividend payable	**206**	213
Amount due to ultimate holding company	**24,567**	27,030
Amounts due to fellow subsidiaries	**4,336**	6,727
	1,570,893	1,660,490
Net current liabilities	**(486,839)**	(401,334)
Total assets less current liabilities	**1,423,123**	2,004,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2023 **HK$'000**	2022 HK$'000
Capital and reserves		
Share capital	**115,158**	115,158
Reserves	**169,939**	317,865
Total equity	**285,097**	433,023
Non-current Liabilities		
Rental deposits received and other liabilities	**53,572**	92,658
Lease liabilities	**1,084,454**	1,478,531
	1,138,026	1,571,189
Total equity and non-current liabilities	**1,423,123**	2,004,212

The Company's statement of financial position was approved and authorised for issue by the board of directors on 28 March 2024 and is signed on its behalf by:

ISEI NAKAGAWA
Director

TAKENORI NAGASHIMA
Director

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

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Investment revaluation reserve HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2022	16,577	437,638	454,215
Loss for the year	–	(123,354)	(123,354)
Fair value loss on investments in equity instruments at FVTOCI	(56)	–	(56)
Total comprehensive loss for the year	(56)	(123,354)	(123,410)
Dividends approved and paid in respect of prior year	–	(13,000)	(13,000)
Unclaimed dividends forfeited	–	60	60
At 31 December 2022	**16,521**	**301,344**	**317,865**
Loss for the year	**–**	**(139,365)**	**(139,365)**
Fair value gain on investments in equity instruments at FVTOCI	**1,827**	**–**	**1,827**
Total comprehensive income/(loss) for the year	**1,827**	**(139,365)**	**(137,538)**
Dividends approved and paid in respect of prior year	**–**	**(10,400)**	**(10,400)**
Unclaimed dividends forfeited	**–**	**12**	**12**
At 31 December 2023	**18,348**	**151,591**	**169,939**

36 COMMITMENTS

Commitments outstanding at 31 December 2023 not provided for in the financial statements were as follows:

	2023 **HK$'000**	2022 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**14,429**	18,811

In addition, the Group was committed at 31 December 2023 to enter into new leases which range from 9 to 15 years that are not yet commenced, the total lease payments under which amounted to $49,700,000 per annum (2022: leases ranged from 4 to 15 years with lease payments amounted to HK$90,700,000 per annum).

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

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 fourteen years (2022: next one to thirteen years).

Undiscounted lease payments receivable on leases are as follows:

	2023 **HK$'000**	2022 HK$'000
Within one year	**204,796**	220,588
In the second year	**93,817**	100,215
In the third year	**39,241**	47,048
In the fourth year	**14,971**	20,436
In the fifth year	**7,254**	12,438
After five years	**7,200**	23,536
	367,279	424,261

The leases are negotiated for terms ranging from 1 to 14 years (2022: 1 to 13 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

(a) Defined contribution retirement plans

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$20,705,000 (2022: HK$24,551,000) 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$3,655,000 (2022: HK$3,565,000) 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 Mainland China subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. Mainland China 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$63,125,000 (2022: HK$68,156,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

38 RETIREMENT BENEFITS SCHEMES (Continued)

(b) Long service payment liabilities

Hong Kong employees that have been employed continuously for at least five years are entitled to LSP in accordance with the Hong Kong Employment Ordinance under certain circumstances. The amount of LSP obligations is determined with reference to the employee's final salary and the years of service, reduced by the amount of any accrued benefits derived from the Group's contributions to MPF scheme (see note 38(a)), subject to an overall cap per employee and the abolition of the offsetting mechanism with effect from 1 May 2025. Currently, the Group does not have any separate funding arrangement in place to meet its LSP obligation.

The Group has accounted for the offsetting mechanism and its abolition as disclosed in notes 2(ii) and 3.

39 RELATED PARTY TRANSACTIONS

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

Relationship	Nature of transaction	2023 HK$'000	2022 HK$'000
Fellow subsidiaries	Commission fee for credit facilities provided to customers	**25,097**	26,889
	Franchise fee	**418**	283
	Trademark fee	**11,227**	12,063
	Other expenses	**18,545**	17,588
	Other income	**10,784**	7,522
	Purchase of goods and property, plant and equipment	**9,474**	6,000
	Interest on lease liabilities	**1,008**	2,623
	Repayment of lease liabilities	**24,007**	21,451
	Management fees and utilities expenses	**21,017**	21,148
	Rental income	**22,355**	22,692
	Sales of coupons	**15,444**	14,475
	Service fee expense	**97,090**	63,361
Ultimate holding company	Royalty expenses	**23,445**	26,526
Non-controlling shareholder of the subsidiary*	Interest on lease liabilities	**5,876**	8,989
	Repayment of lease liabilities	**43,234**	41,018
	Management fees and utilities expenses	**12,541**	13,118

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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:

	2023 **HK$'000**	2022 HK$'000
Amounts due from fellow subsidiaries (included in other receivables, prepayments and deposits)	**1,941**	4,315
Amounts due to fellow subsidiaries (included in lease liabilities)	**257,218**	27,442
Amount due from a non-controlling shareholder of the subsidiary (included in other receivables, prepayments and deposits)	**4,545**	4,632
Amount due to a non-controlling shareholder of the subsidiary (included in lease liabilities)	**71,135**	109,080

Except for the amounts included in lease liabilities, amounts 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 deficit 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 2023

41 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 HK$'000	2022 HK$'000
Financial assets at amortised cost	**1,674,704**	1,866,100
Equity instruments at FVTOCI	**20,752**	18,925
Financial liabilities at amortised cost	**2,066,029**	1,897,178
Lease liabilities	**3,208,794**	3,481,328

(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 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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	
	2023 HK$'000	2022 HK$'000	**2023 HK$'000**	2022 HK$'000
HKD	**170**	167	**–**	–
USD	**5,658**	77,080	**13,522**	13,435
JPY	**9,310**	22,341	**22,993**	19,922
RMB	**1,862**	23,776	**–**	–
Intra-group balances				
RMB	**243,262**	171,054	**–**	–

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.

	2023			2022		
	Increase/ (decrease) in foreign exchange rates %	**Increase/ (decrease) in loss after tax HK$'000**	**Decrease/ (increase) in other comprehensive income HK$'000**	Increase/ (decrease) in foreign exchange rates %	(Decrease)/ increase in loss after tax HK$'000	(Decrease)/ increase in other comprehensive loss HK$'000
JPY	**10%**	**1,143**	**–**	10%	(202)	–
	(10%)	**(1,143)**	**–**	(10%)	202	–
RMB	**10%**	**(155)**	**24,326**	10%	(1,985)	(17,105)
	(10%)	**155**	**(24,326)**	(10%)	1,985	17,105

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

41 FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk management (Continued)

Foreign currency sensitivity (Continued)

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

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2022.

(d) Interest rate risk management

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

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

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

Interest rate sensitivity

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

(e) Other price risk

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

Equity price sensitivity

The sensitivity analysis below have been determined based on the exposure to equity price risks in respect of equity instruments at FVTOCI at the reporting date. If the prices of the equity instruments at FVTOCI had been 5% (2022: 5%) higher/lower, while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$1,038,000 (2022: HK$946,000) 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 2023

41 FINANCIAL INSTRUMENTS (Continued)

(f) Credit risk and impairment assessment

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

Credit card receivables from finance institutions

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

Amounts due from fellow subsidiaries

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

Other receivables and rental deposits

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

Pledged bank deposits, time deposits and bank balances

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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$683,710,000 (2022: HK$615,747,000) at 31 December 2023. The directors of the Company have reviewed the cash flow projections prepared by management to evaluate the Group's ability to continue as a going concern. Based on the cash flow projections, the directors of the Company have a reasonable expectation that the Group has adequate resources to continue in operational existence and to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2023.

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
2023							
Lease liabilities	**2.10% – 9.90%**	**425,180**	**365,119**	**1,908,041**	**988,410**	**3,686,750**	**3,208,794**
Non-interest bearing financial liabilities		**1,944,364**	**12,643**	**105,427**	**3,595**	**2,066,029**	**2,066,029**
		2,369,544	**377,762**	**2,013,468**	**992,005**	**5,752,779**	**5,274,823**
2022							
Lease liabilities	2.32% – 7.99%	507,262	504,452	2,269,768	696,937	3,978,419	3,481,328
Non-interest bearing financial liabilities		1,828,858	13,570	52,176	2,574	1,897,178	1,897,178
		2,336,120	518,022	2,321,944	699,511	5,875,597	5,378,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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	
	2023 **HK$'000**	2022 HK$'000
Equity instruments at FVTOCI		
Listed equity securities	**20,752**	18,925

There were no transfers between levels in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 2022	272	4,366,346	4,366,618
Financing cash flows	(12,999)	(1,065,482)	(1,078,481)
Non-cash changes			
New leases entered/leases modified	–	163,708	163,708
Lease early terminated	–	(40,130)	(40,130)
Interest on lease liabilities	–	236,545	236,545
Dividends recognised as distribution	13,000	–	13,000
Unclaimed dividends forfeited	(60)	–	(60)
Exchange realignment	–	(179,659)	(179,659)
At 31 December 2022	**213**	**3,481,328**	**3,481,541**
Financing cash flows	**(10,394)**	**(1,024,724)**	**(1,035,118)**
Non-cash changes			
New leases entered/leases modified	**–**	**657,483**	**657,483**
Lease early terminated	**–**	**(95,126)**	**(95,126)**
Interest on lease liabilities	**–**	**188,676**	**188,676**
Dividends recognised as distribution	**10,400**	**–**	**10,400**
Unclaimed dividends forfeited	**(13)**	**–**	**(13)**
Exchange realignment	**–**	**1,157**	**1,157**
At 31 December 2023	**206**	**3,208,794**	**3,209,000**

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	Profit/(loss) allocated to a non-controlling interest		Accumulated non-controlling interest		Principal activities
				2023 & 2022	2023 & 2022	2023 & 2022	2023 & 2022	**2023 HK$'000**	2022 HK$'000	**2023 HK$'000**	2022 HK$'000	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	Mainland China	RMB247,156,000 (2022: RMB247,156,000)	65%	65%	35%	34%	**857**	(4,844)	**103,311**	102,148	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	Mainland China	RMB212,800,000 (2022: RMB212,800,000)	100%	100%	–	–	**–**	–	**–**	–	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2022: 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 2023

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.

	2023 HK$'000	2022 HK$'000
Current assets	**1,210,760**	1,184,860
Non-current assets	**1,207,700**	826,468
Current liabilities	**1,185,434**	1,189,799
Non-current liabilities	**930,840**	523,025
Equity attributable to owners of the Company	**198,875**	196,356
Non-controlling interest	**103,311**	102,148
Revenue	**3,857,561**	4,119,256
Expenses	**3,855,109**	4,133,096
Profit/(loss) for the year	**2,452**	(13,840)
Profit/(loss) attributable to owners of the Company	**1,595**	(8,996)
Profit/(loss) attributable to a non-controlling interest	**857**	(4,844)
Profit/(loss) for the year	**2,452**	(13,840)
Other comprehensive income/(loss) attributable to owners of the Company	**592**	(23,640)
Other comprehensive income/(loss) attributable to a non-controlling interest	**306**	(12,254)
Other comprehensive income/(loss) for the year	**898**	(35,894)
Total comprehensive income/(loss) attributable to owners of the Company	**2,187**	(32,636)
Total comprehensive income/(loss) attributable to a non-controlling interest	**1,163**	(17,098)
Total comprehensive income/(loss) for the year	**3,350**	(49,734)
Net cash inflow from operating activities	**289,026**	251,152
Net cash outflow from investing activities	**(184,718)**	(184,622)
Net cash outflow from financing activities	**(224,073)**	(240,281)
Net decrease in cash and cash equivalents	**(119,765)**	(173,751)

FINANCIAL SUMMARY

THE GROUP

	For the year ended 31 December				
	2019 HK$'000	2020 HK$'000	2021 HK$'000	2022 HK$'000	**2023** **HK$'000**
RESULTS					
Revenue	9,493,774	9,961,893	9,554,854	9,571,321	**8,692,870**
Loss before tax	(167,955)	(20,249)	(489,904)	(219,518)	**(185,280)**
Income tax expense	(21,032)	(9,987)	(13,293)	(5,198)	**(2,522)**
Loss for the year	(188,987)	(30,236)	(503,197)	(224,716)	**(187,802)**

	At 31 December				
	2019 HK$'000	2020 HK$'000	2021 HK$'000	2022 HK$'000	**2023** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	8,377,450	8,343,744	7,454,051	6,037,518	**5,579,006**
Total liabilities	(7,471,166)	(7,494,112)	(7,131,361)	(5,935,644)	**(5,673,433)**
	906,284	849,632	322,690	101,874	**(94,427)**
Equity/(deficit) attributable to:					
Owners of the Company	773,532	702,656	203,444	(274)	**(197,738)**
Non-controlling interest	132,752	146,976	119,246	102,148	**103,311**
	906,284	849,632	322,690	101,874	**(94,427)**