AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2020 Annual Report

Stock Code: 984

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

NAKAGAWA Isei *(Managing Director)*
CHAK Kam Yuen
LAU Chi Sum Sam
NAGASHIMA Takenori
HISANAGA Shinya

Non-executive Directors

HABU Yuki *(Chairman)*
YAMASHITA Akinori
SUGAWARA Isao

Independent Non-executive Directors

CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

NOMINATION COMMITTEE

HABU Yuki *(Chairman)*
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

REMUNERATION COMMITTEE

CHAN Yi Jen Candi Anna *(Chairman)*
HABU Yuki
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

AUDIT COMMITTEE

CHOW Chi Tong *(Chairman)*
HABU Yuki
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
MIZUNO Hideto

COMPANY SECRETARY

CHAN Kwong Leung Eric

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

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

SHARE REGISTRARS

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

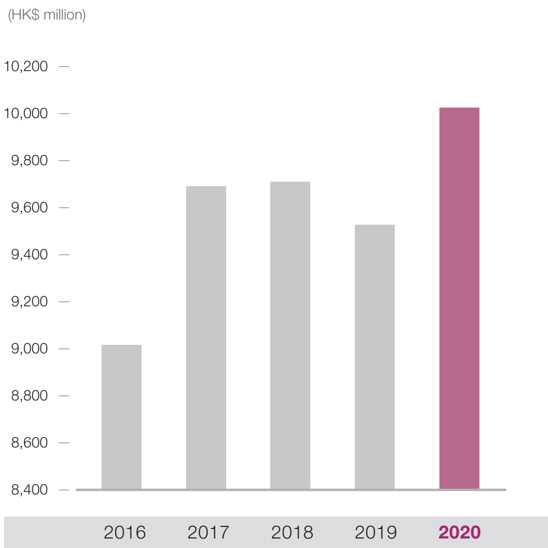
984

WEBSITE

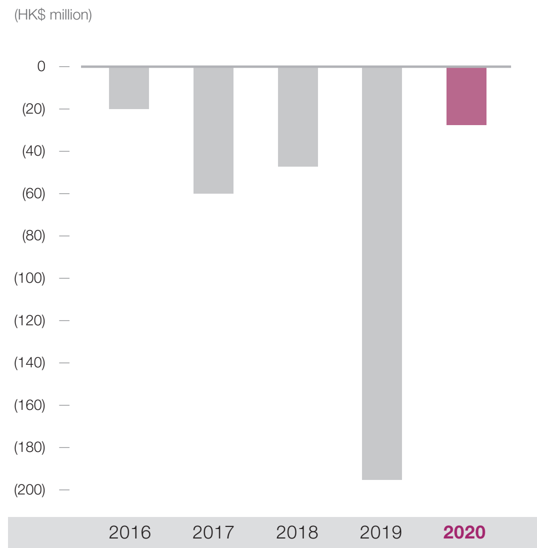
www.aeonstores.com.hk

FINANCIAL HIGHLIGHTS

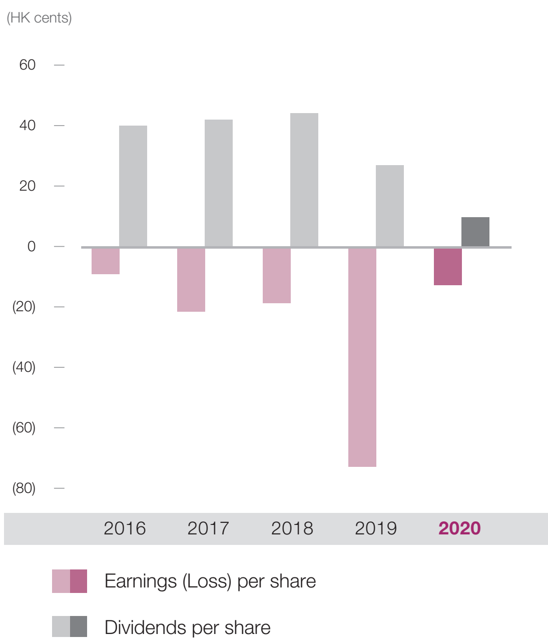
Revenue



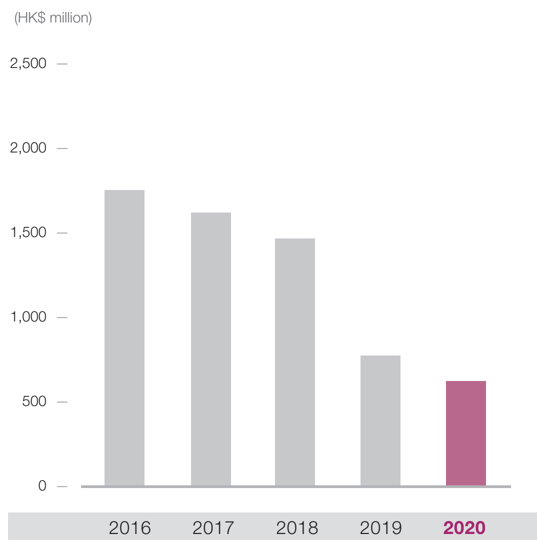
Profit (Loss) Attributable to Owners of the Company



Earnings (Loss) and Dividends per Share



Equity Attributable to Owners of the Company



CHAIRMAN STATEMENT

Ms. HABU Yuki
Chairman

Dear Shareholders,

Over the past year, the ongoing instability caused by the COVID-19 outbreak posed huge challenges to us. In both Mainland China and Hong Kong, the Group provided services to customers in an orderly and safe manner under its unified anti-pandemic guidelines, so as to secure people's daily basic needs. Our frontline staff are particularly commendable for their dedicated efforts every day amid risks to satisfy customers' needs.

This pandemic has completely changed consumption habits as well as the market's competitive environment. The growth of digitalization and online business have brought sales and customer flow to the Group. Since we have already initiated the digital transformation plan at an earlier time, and pushed forward business reforms in a bid to stimulate sales and improve operating efficiency and income structure, we were able to achieve greater improvement this year.

In response to the continuous development of the market and technologies and diversification in consumer lifestyles, the Group made structural reform a priority. We accelerated and strengthened our digital transformation and pursued product differentiation to boost revenue and profit, and reinforced the Group's foundation so as to facilitate long-term business development.

Aside from leveraging the procurement network of AEON Japan in the area of product differentiation, we also introduced proprietary brands from Japan such as "TOPVALU", "HÓME CÓORDY", "iC innercasual" and "Kids Republic", all of which achieved steady growth and were well received by both Hong Kong and Mainland China customers. The Group has set out a development plan for the next three years and it will further develop its proprietary brands, including food and health, beauty care ("H&BC") and household products, strengthen their promotional strategy and organizational structure, and build an investment foundation. In doing so, we will be able to offer customers the highest-quality merchandise and new shopping experiences, which, in turn, will increase the Group's sales and overall profitability.

In light of rising awareness of the importance of good health and quality of life, we will strive to build safe and healthy AEON Stores that will make customers feel at ease, while also providing healthier products. We will make "natural" a top priority among H&BC products, and make "healthy" the Group's core focus, as well as execute a series of environmental measures.

The Group will also implement its digitalization plans at full speed. The rapid development of digitalization in Mainland China has brought us opportunities to show our advantage in business-based digitalization development and to leverage the strength of the whole PRC business unit. Apart from optimizing customer service experience, we will also accelerate the innovation of our business operations so as to optimize various work processes and improve efficiency. In addition to the optimization of self-service cashier systems at brick-and-mortar stores, the Group will also consolidate and upgrade other digital platforms. For example, the Group will upgrade the "AEON Home Delivery" as the Group's APP to span across multiple business fields. Meanwhile, it will also launch a mobile assistant for employees to improve work efficiency. The cross border E-business (海外購), which was launched in 2020, will also offer more comprehensive and premium cross-border products and services to customers in Mainland China.

We will also strengthen the digitalization of our membership services, enabling the provision of customized merchandise suggestions and service information to customers by analyzing their spending habits, thus expanding the customer base and building customer loyalty. Moreover, we will analyze sales and logistics data and calculate the manpower, procurement volume and inventory, so as to control costs and improve business efficiency.

CHAIRMAN STATEMENT

By implementing the strategies above and fully integrating our online and offline operations, AEON Stores will be able to deliver differentiated and individualized merchandise and services to customers within the "AEON ecosystem". Furthermore, by adhering to our "Customer-First" philosophy, we will provide customers with the best services, more comfortable shopping experiences and better quality of life.

Last but not the least, on behalf of the Board, I would like to extend my heartfelt gratitude to our management and all our staff for their dedication, hard work and contributions, as well as our partners and customers for their unwavering trust and support.

HABU Yuki
Chairman

Hong Kong, 25 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. NAKAGAWA Isei
Managing Director

Business Review

The outbreak of the novel coronavirus ("COVID-19") in January 2020 and the subsequent prolonged containment measures to halt its spread brought great challenges to the Group's business in Hong Kong and Mainland China ("PRC") during the year under review. In response to these challenging circumstances, the Group implemented a number of measures to mitigate the pandemic's impact on its business operations.

Hong Kong Operations

In the year 2020, customers' consumption behavior changed significantly. With the majority of the public spending most of their time at home, they have become more aware of the need to improve their living environment as well as overall health and safety. In order to cater to the needs of customers, the Group not only assured the supply of local products, but also sourced merchandise needed by Hong Kong residents from Japan, South East Asia and China by capitalizing on the procurement channels of AEON Group, so as to fulfill its mission of supporting the community. The Group's supermarket business recorded a year-on-year sales increment of 10–20% higher than the sales increment of the Hong Kong market, given credit to the Group's ability to strengthen the merchandise assortment during Super Wednesday sales and widened the supply of our private brand Topvalu merchandise.

During the year under review, the Group completed the extensive renovation of its Tuen Mun store, one of its core retail outlets. In order to increase the sales proportion of local customers, the Group enhanced the differentiation of its food division, strengthened the diversity of fresh food available such as fish, meat and vegetables and enriched the portfolio of processed food products which are primarily made in Japan. In addition, the Group reorganized its family-oriented apparel and household merchandise categories, along with the store layout. It also actively introduced new brands under the AEON Japan Group. Moreover, the Group completed small-scale renovations in three stores in Hong Kong, and introduced the homeware brands "HÓME CÓORDY", "iC innercasual" and "KIDS REPUBLIC" into suitable stores, with the aim of bringing high quality products and a new shopping experience to customers.

"HÓME CÓORDY" primarily provides household products that feature Japanese elements such as simple design, reasonable prices, multi-functionality, and colorful appearance, as well as being easy to mix-and-match. The brand has been well-received by customers. (Four specialty outlets were opened in the Group's stores.) Moreover, "iC innercasual", which primarily provides functional underwear, comfortable loungewear and general casual wear, reported a better-than-expected sales performance. (Two specialty outlets were opened in the Group's stores.)

In order to accelerate the business growth of small specialty stores, in line with the Group's business plan, the Group opened eleven "Living Plaza" outlets and one lifestyle specialty store "ものもの (Mono Mono)" during the year. Meanwhile, it has reviewed and optimized its store opening, construction and operation infrastructure.

As for daily operations, the Group added more self-service cashier systems and a "POS Express" mobile payment system in suitable stores in order to quicken the payment process and provide greater convenience to customers.

In the year under review, revenue from Hong Kong operations increased by 15.5% to HK$4,894.3 million (2019: HK$4,239.0 million). Segment results improved by HK$177.1 million from a loss of HK$114.8 million last year to a profit of HK$62.3 million this year, attributable to sales growth, implementation of effective business plans and government grants received.

MANAGEMENT DISCUSSION AND ANALYSIS

PRC Operations

Amidst the outbreak of the pandemic during the first half of the year, the Group obtained the government's approval to continue its food business operations and support the commodity needs of the community. The Group also enhanced the services of its online supermarket in order to address the needs of customers who were unable to leave the house due to COVID-19 preventive measures. In the second half of the year, when the pandemic was brought under control, there was a recovery in the number of customers visiting our stores, although the speed of recovery was slower than anticipated.

Throughout the year, the Group continued with its store expansion plan and had a net increase of three supermarkets.

On 29 November 2020, an accidental fire occurred at the back room of a store in Dongguan city (the "Store"). No personal injury or death was caused. Certain inventories, fixtures, facilities and equipment were damaged. The Store's food department reopened on 25 December 2020 and the other affected areas reopened at end of January 2021. While most of the losses from property damages were compensated by the insurance company, the Group still suffered from the loss of revenue while the Store was closed.

In the year under review, the revenue of the PRC business decreased by 3.6% to HK$5,067.6 million (2019: 5,254.8 million), with a loss narrowed down to HK$73.0 million (2019: loss of HK$80.6 million).

Prospects

The Group believes that COVID-19 will gradually subside in 2021. As the number of people receiving the vaccine increases, consumer sentiment will recover in both Hong Kong and the PRC.

Going forward, the Group will remain focused on realizing its store expansion plans while also implementing and deepening different measures aimed at improving its results. In terms of merchandise improvement, the Group will increase the sales share of private label merchandise under the Topvalu, HÓME CÓORDY, iC innercasual and Sakura Kobo brands, so as to improve the gross profit margin. The Group's merchandise procurement team will also introduce more merchandise, with a particular focus on providing a wider selection of natural and 'green' products to offer our customers greater choice. The Group will continue to invest in digital enhancement for its internet business, enhance customer relationship management programs to increase spending among loyal customers, and further manage its expenses by digitalizing back-end support functions.

Hong Kong Operations

The Group believes that 2021 will be another year of rapid expansion for small specialty stores. In January 2021, the Group opened another lifestyle specialty store, Mono Mono, at Lohas Park. The Group is aiming to at least open the same number of small specialty stores in 2021 as in 2020.

As part of the enhancement of its internet business in Hong Kong, the Group launched cross-border internet sales in January 2021, making merchandise from Japan available to customers in Mainland China.

The Group will also carry out small-scale renovations on four of its large stores in order to provide a better shopping environment for its customers.

PRC Operations

Although the number of customers visiting our stores during the second half of 2020 did not meet expectations, the Group believes that looking ahead to 2021, customer footfall will gradually improve. The Group will continue to strengthen its online supermarket business services to address customers' behavioral changes.

The Group will continue with its store development plan, with an aim to open six supermarkets in 2021. One was opened in January 2021 and another one was opened in March 2021.

Group

According to the 2021 investment plan, the estimated total capital expenditure is approximately HK$186 million.

Save as previously mentioned or otherwise disclosed herein, no significant events affecting the Group's business have occurred between 31 December 2020 and the date these consolidated financial statements are authorized for issue.

Financial Review

Amid a difficult business environment, the Group's revenue increased by 4.9% year-on-year to HK$9,961.9 million (2019: HK$9,493.8 million). Gross profit margin dropped 1% to 28.9% (2019: 29.9%).

MANAGEMENT DISCUSSION AND ANALYSIS

As for other income, affected by the COVID-19, income derived from sub-lessees and other income decreased by HK$101.1 million. With the government grants received from the Hong Kong government and municipal governments in PRC totaled HK$146.4 million to support the Group's business, other income resulted in an overall increase of 7.0% as compared with last year.

As for cost control during the year under review, the Group's staff cost declined by 1.5% and its ratio to revenue dropped to 10.7% (2019:11.3%). Expenses related to the leases also dropped by 2.5% and the ratio of expenses to sales revenue dropped to 12.0% (2019: 12.9%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, also decreased by 2.2% year-on-year and the ratio of other expenses to revenue was 10.4% (2019:11.2%).

Included in other gains and losses, amongst others, exchange gain of HK$11.6 million (2019: exchange loss of HK$9.0 million) and insurance claims for damages from fire and flooding accident net of loss amounted to HK$11.7 million (2019: Nil). In addition, an impairment loss in respect of goodwill of HK$32.0 million (2019: Nil) was recognized in the year. It was because the performance of those relevant stores operated in mainland China that the goodwill was attached to was affected by the COVID-19 pandemic during the first half of the year and the slow recovery of the customers visiting those stores in the second half of the year.

Due to the above reasons, loss attributable to owners of the Company for the year was HK$36.8 million (2019: loss of HK$188.7 million), representing a reduction of HK$151.9 million.

The Board proposed a final dividend of HK$0.05 (2019: HK$0.05) per share for the year ended 31 December 2020. In the recommendation or declaration of dividends, the Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant. Together with the interim dividend of HK$0.05 (2019: HK$0.22) per share paid in the year, total dividends for the year is HK$0.10 (2019: HK$0.27) per share.

During the year, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC and the upgrade of information technology systems amounted to HK$156.5 million.

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

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK$2,001.6 million as at 31 December 2020 (2019: HK$1,798.1 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$25.0 million (2019: HK$24.1 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$7.6 million (2019: HK$7.9 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 31 December 2020 amounted to HK$4,870.6 million (2019: HK$4,800.7 million), of which HK$711.1 million (2019: HK$762.1 million) is payable within one year. The Group's lease liabilities to equity ratio as at 31 December 2020 (defined as the total lease liabilities divided by total equity) was 573% (2019: 530%).

As at 31 December 2020, the Group's current liabilities exceeded its current assets by HK$94.3 million (2019: net current liabilities of HK$361.6 million). The Group has a number of financial sources available to fund its operations and in the foreseeable future and will be able to meet its financial obligations when they fall due.

Corporate Goals

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

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at 31 December 2020, the Group had approximately 6,500 full-time and 3,100 part-time employees in Hong Kong and the PRC. Under the "Everything we do, we do for our customers" credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. Under 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.

I. nakagawa

NAKAGAWA Isei
Managing Director

Hong Kong, 25 March 2021

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 (the "ESG Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Reporting principles

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

Materiality

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

Quantitative

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

Consistency

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

Reporting boundary

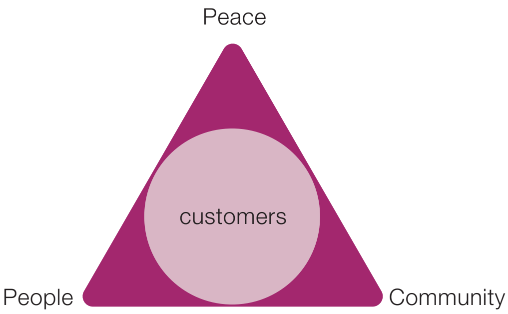
The annual ESG report contains information on significant economic, environmental and social impacts arising from the Group's operations in Hong Kong and in mainland China for the year. These include operations conducted by AEON Stores (Hong Kong) Co., Limited and our two principal subsidiaries Guangdong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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our philosophy

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



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

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

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

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

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

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

Environmental

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

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

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

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(a) Emissions

AEON identifies carbon dioxide emission as its material greenhouse gas emission. AEON's largest direct source of carbon dioxide emissions is from kitchens or workshops in our store operations which consume gas. In 2020, 750 tonnes of carbon dioxide was emitted. AEON will continue to introduce all-electric cooking system and kitchen equipment in stores to reduce greenhouse gas emissions from gas combustion as far as practicable.

AEON's indirect source of carbon dioxide emissions is from its electricity consumption in our store operations. In 2020, 110,358 tonnes of carbon dioxide was emitted.

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

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

AEON works with recycling organizations which convert food waste to animal feed or transform food waste into electricity and compost. In 2020, 2,679 tonnes of food waste was collected for recycling.

AEON recycles waste cooking oil into biodiesel products. In 2020, 63.1 tonnes of waste oil was collected for recycling.

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

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

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

(b) Use of resources

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

The Group's electricity and gas consumption in the year were 144,155,000 kWh and 3,214,000 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 1.15 million cubic metres.

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

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 283,900 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

(d) Climate change

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

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

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

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

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

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

Social

1. Employment and labour practices

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

(a) Employment

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at 31 December 2020, the Group employed approximately 9,600 staff which can be grouped by:

Gender	Staff no.
Male	2,600
Female	7,000
Total	9,600

Employment type	Staff no.
Full time executive	400
Full time supervisory	1,600
Full time general	4,500
Part timer	3,100
Total	9,600

Age group	Staff no.
between 18 to 35	4,100
between 36 to 50	4,100
>50	1,400
Total	9,600

Geographical region	Staff no.
Hong Kong	3,400
China (other than Hong Kong)	6,200
Total	9,600

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Average employee turnover rate in the year grouped by:

Gender	%
Male	7.0%
Female	5.7%
Total	6.1%

Age group	%
between 18 to 35	9.7%
between 36 to 50	2.8%
>50	3.3%
Total	6.1%

Geographical region	%
Hong Kong	4.6%
China (other than Hong Kong)	6.8%
Total	6.1%

(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 2,300 days sick leave were claimed by staff due to work injury.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(c) Development and training

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

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

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

i) AEON fundamental education

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

ii) Internal certification systems

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

iii) Group recruitment system

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

iv) Trainee system

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

v) AEON CHINA Business School

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

vi) Partnership training program with Tsinghua University

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

vii) AEON Code of Conduct training

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

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

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

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

Gender	**Hours**
Male	2.0
Female	1.4

Employee category	**Hours**
Full time executive	2.9
Full time supervisory	1.6
Full time general	1.9
Part timer	0.4

(d) Labour standards

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Operating practices

(a) Supply chain management

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

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

At 31 December 2020, the approximate number of suppliers of merchandise grouped by geographical region was:

Geographical region	No.
Hong Kong	1,000
China (other than Hong Kong)	1,100
Other countries	400
	2,500

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

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

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

(b) Product responsibility

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

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

In the reporting year, the percentage of total products sold subject to recalls for safety and health reasons was less than 0.00002%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In the reporting year, approximately 1,700 complaints related to product and services were received. The Group expressed sincere apologies to all complainants for the product or services that cannot met their satisfactions. 72% of complaint cases were settled without compensation, 24% were settled by exchange for similar products or refund and the remaining 4% were settled by other means.

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

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

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

(c) Anti-corruption

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

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

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

There was no concluded legal case regarding corrupt practices brought against the Group or its employees in the reporting period.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Community

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

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

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

   Beneficiaries of this program are charitable organizations serving the elderly, youngsters, disabled, under privileged groups and also organizations promoting environmental conservation and animal protection. In the year, AEON contributed approximately HK$2.0 million to various beneficiaries.

ii) The AEON Cheers Club provides hands-on opportunities for primary to secondary students to learn about the environment. Young people can participate in environmental activities with the support of store employees. In the year, approximately 600 man hours were spent on organizing AEON Cheers Club activities and other community contribution activities.

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

iv) AEON provides direct support to low-income families through food donation. In the year items valued HK$0.5 million were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

Executive Directors

Mr. NAKAGAWA Isei

Mr. Nakagawa (aged 54) was appointed as Executive Director and the Managing Director of the Company in May 2019. Before he joined the Company, he was the managing director of Qingdao AEON Dongtai Co., Ltd. ("QADCL"). He joined AEON Co., Ltd. group in March 1990 and since then was assigned to assume different positions related to various operations in AEON Retail Co., Ltd. ("ARCL"). He became the chairman of Maxvalu Hokuriku Co., Ltd. in August 2010, an executive director of ARCL in March 2013, and the managing director of QADCL in February 2015. Mr. Nakagawa graduated from the Toyo University with a bachelor's degree in Business Administration.

Mr. CHAK Kam Yuen

Mr. Chak (aged 58) was appointed as Executive Director in March 2013 and is in charge of Corporate Compliance Division of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 30 years of solid experience in retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce.

Mr. LAU Chi Sum Sam

Mr. Lau (age 54) was appointed as Executive Director in March 2017 and is in charge of the Operations Division of the Company. He joined the Company in 1992 and possesses extensive experience in retail operations and buying field. He has tendered his resignation with the Company and will cease to be an Executive Director with effect from 27 March 2021.

Mr. NAGASHIMA Takenori

Mr. Nagashima (aged 39) was appointed as the Administration General Manager of the Company in May 2019 and Executive Director in charge of Administration and Corporate Finance of the Company in October 2019. He joined AEON Retail Co., Ltd. in September 2004. From 2011 to 2014, he was assigned to assume different positions related to various operations in AEON Co., Ltd.. In September 2014, he was appointed as the Administration General Manager of 永旺（湖北）商業有限公司, with responsibility of establishing its supporting team, management in charge and small store development. Mr. Nagashima received his bachelor's degree from the International Cultural Exchange School of Fudan University

Mr. HISANAGA Shinya

Mr. Hisanaga (aged 47) was appointed as the General Manager of the Buying Division of the Company in March 2020 and Executive Director of the Company in May 2020. He joined AEON Retail Co., Ltd. in April 1997. Since then, he was assigned to assume different positions in various business divisions related to business planning and coordination in AEON Retail Co., Ltd. group companies. Before he joined the Company, he was an executive officer of Home Coordy Business Division in AEON Retail Co., Ltd.. He became a director of Sunday Co., Ltd. and AEON Bike Co., Ltd. in May 2016 and became a director of R.O.U Co., Ltd. in March 2015. Mr. Hisanaga received his bachelor's degree in Commerce from the Hannan University.

SENIOR MANAGEMENT PROFILE

Non-Executive Directors

Ms. HABU Yuki

Ms. Habu (aged 53) was appointed as Non-executive Director in March 2014 and re-designated as Executive Director in May 2017. She became the Chairman in April 2015 and the Managing Director in May 2017. She was re-designated from Executive Director to Non-executive Director and ceased to be the Managing Director in May 2019. She is also an executive vice president of Digital Business of AEON Co., Ltd. ("AEON Co") from March 2020. Ms. Habu was an executive vice president of China Business of AEON Co from March 2020 to February 2021. She was an executive officer, chief officer of China Business of AEON Co from March 2017. She is the president of AEON (China) Co., Ltd.. She joined AEON Co in 1991 and has been a director of AEON (China) Co., Ltd. and was the former managing director of Beijing AEON Co., Ltd.. She is also a director of Giddy Inc., a Delaware corporation doing business as Boxed from August 2018. Ms. Habu graduated from the Keio University with a bachelor's degree in Commerce.

Mr. YAMASHITA Akinori

Mr. Yamashita (aged 67) was appointed as Non-executive Director in May 2018. He is a director, representative deputy president, chief financial officer and business administration of AEON Co. He joined AEON Co in April 1977 and became vice president in May 2004, senior vice president in May 2005 and chief officer of corporate finance in September 2013. Being a director of Group companies, he was senior executive director of The Daiei, Inc. in May 2010, president and representative director of AEON Financial Service Co., Ltd. in June 2014, chairman and representative director of AEON Retail Co., Ltd. in March 2016. Mr. Yamashita graduated from the Kwansei Gakuin University with a bachelor's degree in Law. Mr. Yamashita confirmed that he will not stand for re-election as a Director at the 2021 annual general meeting of the Company to be held on 28 May 2021 as he would like to allocate more time for his personal commitments.

Mr. SUGAWARA Isao

Mr. Sugawara (aged 60) was appointed as Non-executive Director in March 2021. He is the vice president of AEON (China) Co., Ltd. ("ACCL") and is a director of Guangdong AEON Teem Co., Ltd. and AEON South China Co., Ltd., both being subsidiaries of the Company. Mr. Sugawara joined AEON Co, the ultimate holding company of the Company, in March 1981. Since then, he was assigned to assume different positions in various business divisions of AEON Co. In May 2014, Mr. Sugawara was appointed the chief operation officer of ACCL and in March 2020, he became the vice president of ACCL. Mr. Sugawara graduated from the Faculty of Agriculture, Akita Prefectural University.

Independent Non-Executive Directors

Ms. CHAN Yi Jen Candi Anna

Ms. Chan (aged 59) was appointed as Independent Non-executive Director in May 2013. She is a practicing solicitor in Hong Kong for over 30 years and is a consultant of LCP Lawyers. Ms. Chan was respectively admitted as solicitor in Hong Kong in 1987, as solicitor in England & Wales in 1992 and as advocate and solicitor in Singapore in 1995. She is also a civil celebrant and accredited mediator. Ms. Chan graduated from the University of Hong Kong with a bachelor's degree in Laws (LL.B.). She is currently the Deputy Chairman of Rules, Chairman of Championship Committee and Tournament Director with the Hong Kong Golf Association.

SENIOR MANAGEMENT PROFILE

Ms. LO Miu Sheung Betty

Ms. Lo (aged 58) was appointed as Independent Non-executive Director in November 2013. She is a qualified solicitor in Hong Kong and has over 31 years of experience in general legal practice, with specialisation in conveyancing, commercial and probate laws. Ms. Lo has been in active practice since qualification and is currently a consultant of Messrs. K.C. Ho & Fong, Solicitors. She graduated from The University of Hong Kong with a bachelor's degree in Laws (LL.B.). She also holds a Postgraduate Certificate in Laws (PCLL). She is currently an independent non-executive director of Sincere Watch (Hong Kong) Limited and Kingston Financial Group Limited, the shares of which are listed on the main board of the Stock Exchange. She was an independent non-executive director of Eagle Legend Asia Limited for the period from March 2012 to December 2014, which is listed on the main board of the Stock Exchange.

Mr. CHOW Chi Tong

Mr. Chow (aged 61) was appointed as Independent Non-executive Director in January 2016. He is an accountant in practice as a partner of Ting Ho Kwan & Chan CPA Limited, Certified Public Accountants (Practising). Mr. Chow has over 34 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 47) was appointed as Independent Non-executive Director in August 2018. He has been the vice chairman of Mizuno Sports Promotional Foundation, a non-profit organization, since June 2016. He was also the wholesale director of Timberland brand of VF Japan Corporation from June 2017 to February 2018. Before June 2017, Mr. Mizuno was an executive director of Mizuno Corporation, a company listed on the Tokyo Stock Exchange. During his over ten years' services in Mizuno Corporation, he was in charge of the Global Brand Development, New Business Development, National Accounts Sales and Nagoya Sales Branch Office. He was also the vice president of Mizuno USA in charge of Corporate Planning during the period from July 2005 to March 2009. Mr. Mizuno holds a master degree in Business Architect from the Kanazawa Institute of Technology Japan, a bachelor's degree in Chemistry from the Carthage College USA and a bachelor's degree in Economics from the Keio University Japan.

Senior Management

Mr. YEUNG Tze Shing

Mr. Yeung (aged 57) is the General Manager of Corporate Finance Division of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the HKICPA. He joined the Company in 1995. Mr. Yeung graduated from the Chinese University of Hong Kong with a bachelor's degree in Science.

Mr. WONG Shun Ping

Mr. Wong (age 52) joined the Company in January 2019 as the Assistant General Manager of Construction and Maintenance Department of the Company. Before he joined the Company, he was a senior manager of AEON China Investment Co., Ltd. responsible for the standardisation of stores designs, procurement of fixtures and facilities for all new store projects and store renovation projects in China. Mr. Wong graduated from the Hong Kong Polytechnic University with a Higher Certificate in Mechanical Engineering.

Mr. LI Yat Ming

Mr. Li (age 55) is the Assistant General Manager of Operations cum Kornhill Store Manager of the Company. He joined the Company in May 1994. Since then, he was assigned to assume different management positions related to store operations in the Company.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practice

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

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

In the opinion of the Directors, the Company has complied throughout the year ended 31 December 2020 with the code provisions of the Code, except for certain deviations disclosed in this 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 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all existing Directors, the Company confirms that they have fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

Board of Directors

Board Composition

As at the date of this annual report, the Board comprises a total of 12 Directors, being 5 Executive Directors, 3 Non-executive Directors and 4 Independent Non-executive Directors. The number of Independent Non-executive Directors represents one-third of the Board as required by Rule 3.10A of the Listing Rules. The list of the Directors and their biographies are set out on pages 21 to 23 of this annual report.

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

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

Role of the Board

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

CORPORATE GOVERNANCE REPORT

Board Process

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

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

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

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

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

Attendance at Board Meetings

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

	Directors	Number of attendance
Executive Directors	Isei Nakagawa *(MD)*	6/6
	Chak Kam Yuen	6/6
	Lau Chi Sum Sam	6/6
	Takenori Nagashima	6/6
	Shinya Hisanaga (Note 1)	3/3
Non-executive Directors	Yuki Habu *(Chairman)*	6/6
	Akinori Yamashita	5/6
Independent Non-executive Directors	Chan Yi Jen Candi Anna	6/6
	Lo Miu Sheung, Betty	5/6
	Chow Chi Tong	6/6
	Hideto Mizuno	6/6

Note:

1. Mr. Shinya Hisanaga was appointed as an Executive Director on 26 May 2020 and there were 3 regular Board meetings held after his appointment.

CORPORATE GOVERNANCE REPORT

Appointment and re-election of Directors

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

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

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

Attendance at Annual General Meeting

The attendance of the Directors at the Annual General Meeting held on 26 May 2020 is as follows:

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

Notes:

1. Mr. Shinya Hisanaga was appointed as an Executive Director after the conclusion of the Annual General Meeting held on 26 May 2020.

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

CORPORATE GOVERNANCE REPORT

Independence of Independent Non-executive Directors

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

Directors' Induction and Continuous Professional Development

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

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

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

	Directors	**Directors' participation in trainings**
Executive Directors	Isei Nakagawa *(MD)*	✓
	Chak Kam Yuen	✓
	Lau Chi Sum Sam	✓
	Takenori Nagashima	✓
	Shinya Hisanaga	✓
Non-executive Directors	Yuki Habu *(Chairman)*	✓
	Akinori Yamashita	✓
Independent Non-executive Directors	Chan Yi Jen Candi Anna	✓
	Lo Miu Sheung, Betty	✓
	Chow Chi Tong	✓
	Hideto Mizuno	✓

Chairman and Chief Executive

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

During the year, Ms. Yuki Habu was the Chairman of the Board of the Company while Mr. Isei Nakagawa was the MD of the Company. The roles of the Chairman and the Managing Director of the Company are segregated and assumed by two separate individuals who have no relationship with each other to ensure the power and authority are not concentrated in any one individual for the purpose of code provision A.2.1.

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

Board Committees

Nomination Committee

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

In the selection, appointment and re-appointment of Directors, the Nomination Committee will consider, revaluate 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(s);

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

3. commitment of the candidate(s) 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(s) is/are selected;

5. independence of the candidate(s);

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

During 2020, the Nomination Committee performed the following duties:

- reviewed the size, structure and composition of the Board;
- reviewed individuals suitably qualified to become members of the Board on merit and against objective criteria and with due regard for the benefits of diversity on the Board and select or make recommendations to the Board on the individuals nominated for directorship;
- reviewed the time commitment of Directors for performing their responsibilities and their contribution to the Board diversity;
- assessed the independence of Independent Non-executive Directors;
- recommended the Board on the re-election of retiring Directors at the Annual General Meeting for 2020, and re-appointment of Board and Committees' Chairmen, Committees' members and Managing Director; and
- recommended the Board on the appointment of new Executive Director and new senior management.

Remuneration Committee

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

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

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

During 2020, the Remuneration Committee performed the following duties:

- reviewed the remuneration of all existing Directors and senior management and recommended the Board to approve their remuneration; and
- reviewed and made recommendations to the Board on the proposed remuneration of new Executive Director and new senior management.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2020 are disclosed in notes 14 and 15 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Audit Committee

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

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

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

	Directors	Number of attendance
Non-executive Director	Yuki Habu	6/6
Independent Non-executive Directors	Chow Chi Tong *(Chairman)*	6/6
	Chan Yi Jen Candi Anna	6/6
	Lo Miu Sheung, Betty	5/6
	Hideto Mizuno	6/6

During 2020, the Audit Committee performed the following duties:

- met with the external auditor to discuss and monitor the progress of the audit works under the COVID-19 impact;
- reviewed the audited financial statements for the year ended 31 December 2019 with a recommendation to the Board for approval;
- reviewed the unaudited financial statements for the six months ended 30 June 2020 with a recommendation to the Board for approval;
- reviewed the effectiveness of and various reports on risk management and internal control system covering financial, operational, procedural compliance and risk management functions;
- met with the external auditor and reviewed their reports (including 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 auditor (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 auditor in respect of audit and non-audit services;
- reviewed the independence and objectivity of the external auditor;
- recommended to the Board the re-appointment of the external auditor; and
- reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

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

Auditor's Remuneration

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

Services rendered	**Fees paid/payable** HK$'000
Audit services — annual audit	5,278
Non-audit services:	
Review of interim results	831
Taxation services	1,022
Other services	1,550
	8,681

Corporate Governance Function

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

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

The Board has reviewed the corporate governance practices for the year under review and is satisfied with the effectiveness of the corporate governance practices.

Accountability and Audit

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2020 and for the year ended 31 December 2020, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The reporting responsibilities of the Company's auditor, Deloitte Touche Tohmatsu, are stated in the "Independent Auditor's Report" on pages 49 to 54 of this annual report.

Risk Management and Internal Controls

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

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

The Risk Control Self-Assessment Matrix focuses on the following 9 categories of corporate risk factors:

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

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

The Group's internal audit teams carried out internal audit functions of the Group to assess the risk, efficiency and effectiveness of the overall risk management and internal control systems. The Group's internal audit teams also regularly performs review of the business processes and activities of the internal control systems and report the review results to management and the Audit Committee twice a year.

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

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

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

CORPORATE GOVERNANCE REPORT

Company Secretary

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

According to Rule 3.29 of the Listing Rules, Mr. Chan Kwong Leung Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2020.

Shareholders' Rights

Convening a General Meeting by Shareholders

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

Putting Forward Enquiries to the Board

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

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

Putting Forward Proposals at the General Meetings

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

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

Investor Relations

There is no significant change in the Company's constitutional documents during the year ended 31 December 2020.

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 2020.

Principal Activities

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

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 4 to 5 and in the Management Discussion and Analysis on pages 6 to 9 of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Chairman's Statement on pages 4 to 5 and in the Management Discussion and Analysis on pages 6 to 9 and in the Corporate Governance Report under the section headed "Risk Management and Internal Controls" on page 33 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in notes 40 and 41 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on page 3 of this annual report, in the Management Discussion and Analysis on pages 6 to 9 and in notes 5 and 6 to the consolidated financial statements. In addition, discussions on the Group's environmental policies and performances, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 10 to 20 of this annual report.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2020 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 2020.

Results and Appropriations

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 55 to 56 of this annual report.

An interim dividend of 5.0 HK cents per share amounting to HK$13,000,000 was paid to the shareholders during the year. The Board has recommended the payment of a final dividend of 5.0 HK cents per share amounting to HK$13,000,000 to the shareholders on the register of members on 4 June 2021. Subject to the shareholders' approval at the forthcoming annual general meeting, the final dividend will be paid on or before 25 June 2021.

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 2020 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 2020 were the retained profits of HK$717,488,000 (2019: HK$659,309,000).

Equity-linked Agreements

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

Directors

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

Executive Directors

NAKAGAWA Isei *(Managing Director)*	
CHAK Kam Yuen	
LAU Chi Sum Sam	
NAGASHIMA Takenori	
HISANAGA Shinya	Appointed on 26 May 2020

Non-executive Directors

HABU Yuki *(Chairman)*	
YAMASHITA Akinori	
SUGAWARA Isao	Appointed on 25 March 2021

Independent Non-executive Directors

CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

At the Board meeting held on 25 March 2021, the Board accepted Mr. LAU Chi Sum Sam's resignation with effect from 27 March 2021 and was notified by Mr. Akinori YAMASHITA of his retirement with effect from the conclusion of the forthcoming annual general meeting and therefore, Mr. Akinori YAMASHITA would not offer himself for re-election at the forthcoming annual general meeting.

In accordance with Articles 85 and 101 of the Company's Articles of Association, all Directors (except Mr. LAU Chi Sum Sam and Mr. Akinori YAMASHITA) shall retire from office at the forthcoming annual general meeting and offer themselves for re-election.

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

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

CHAK Kam Yuen, LAU Chi Sum Sam, Isei NAKAGAWA, Takenori NAGASHIMA, Yuki HABU, CHEN Yin Feng, Kenji TOMARI, HUANG Qi Ning, JIAO Li, WANG Jian Heng, Hiroyuki INOHARA, Isao SUGAWARA, Masatoshi OMOTO, Minoru FUKADA, YANG Guo Dong, Masahiko KAKITSUBATA and Tomohiko KUKUTSU.

Directors' Service Contracts

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

DIRECTORS' REPORT

Management Contracts

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

Directors' Interests in Shares

As at 31 December 2020, the interests of the Directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) The Company

Name of Directors	Number of ordinary shares held as personal interests	Approximate percentage of interests %
HABU Yuki	20,000	0.00769
NAKAGAWA Isei	15,000	0.00577
CHAK Kam Yuen	10,000	0.00385
NAGASHIMA Takenori	2,000	0.00077
HISANAGA Shinya	30,000	0.01154

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

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
HABU Yuki (Note 1)	8,460	0.00097
NAKAGAWA Isei (Note 2)	2,400	0.00028
HISANAGA Shinya (Note 3)	2,030	0.00023
YAMASHITA Akinori (Note 4)	20,630	0.00237

Notes:

1. As confirmed by Ms. HABU Yuki, her shareholding in AEON Co., Ltd. is 8,460 shares.

2. As confirmed by Mr. NAKAGAWA Isei, his shareholding in AEON Co., Ltd. is 2,400 shares.

3. As confirmed by Mr. HISANAGA Shinya, his shareholding in AEON Co., Ltd. is 2,030 shares.

4. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Co., Ltd. is 20,630 shares.

(C) The Company's Associated Corporation

Name of Director	Associated corporation	Number of shares held as personal interests	Approximate percentage of interests %
YAMASHITA Akinori (Note 1)	AEON Financial Services Co., Ltd.	10,976	0.00508

Note:

1. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Financial Services Co., Ltd. is 10,976 shares.

Other than as disclosed above, at 31 December 2020, 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' Interests in Transactions, Arrangements or Contracts of Significance

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

Directors' Indemnities

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

Connected Transactions

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

(i) On 9 June 2010, the subsidiary of the Company, Guangdong AEON Teem Stores 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 RMB52,244,381. This amount does not exceed the cap amount of RMB70,000,000 as shown in the announcement of the Company dated 9 June 2010.

DIRECTORS' REPORT

(ii) On 24 December 2018, AEON Co., Ltd. ("ACL"), the controlling shareholder of the Company, and the Company entered into a renewal agreement to renew the Royalty Agreement for another three years expiring on 31 December 2021. The renewed Royalty Agreement was renewed on substantially the same terms as the Royalty Agreement that was entered on 29 December 2015 and expired on 31 December 2018. ACL is a connected person of the Company and the entering into the renewed Royalty Agreement constitute continuing connected transactions of the Company.

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

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

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

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

(i) the provision of retail services;

(ii) the operation of shopping centres; and

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

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

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

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

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

The total amount of fees payable by the Company for the year was HK$27,501,022. This amount does not exceed the cap amount of HK$40,000,000 as shown in the announcement of the Company dated 24 December 2018.

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

(iii) On 3 April 2020, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into the Renewal Agreement to renew the Master Agreement in respect of the Commission Payment Transactions for a further term of three years from 15 April 2020 to 14 April 2023. ACS and the Company are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the Renewal Agreement constitutes continuing connected transactions of the Company. Pursuant to the Renewal Agreement, the Company shall pay commissions to ACS in respect of (1) credit purchase facilities made available to customers of the Company for making purchases at the Company's stores with the use of the various co-branded credit cards issued by ACS; (2) card instalment plan made available to customers of the Company for making purchases of goods and/or services at the Company's stores; (3) other payment solutions made and to be made available to customers of the Company for making purchases from time to time, including the usage of any kind of credit, debit, prepaid and/or stored value cards or other medium or facilities owned and/or operated by ACS; and (4) other related services provided to the Company or its customers which are derived from or ancillary to the transactions described above or arising out of the cards or other medium or facilities from time to time. The commissions are calculated on the basis of fixed percentages of the sales generated by the credit purchase facilities or the payment solutions provided by ACS, depending on the type of service provided. These commission rates (as may be revised from time to time) are and will be determined between the Company and ACS after arm's length negotiations, range from 0.6% to 2.4% of the relevant sales amount. In negotiating and agreeing the commission rates and other terms of the Commission Payment Transactions with ACS, the Company takes into account the prevailing market commission rates for similar types of transactions that are provided and/or made available by independent third parties to the Company and gives credit to ACS for any ancillary services provided and to be provided to the customers of the Company by ACS. Further, the Company has compared the fees charged by other independent third parties in the market for similar services to ensure that the price and terms offered by ACS are better than those offered by such third parties. The total amount of commissions paid by the Company for the year was HK$13,356,817. This amount does not exceed the relevant aggregated cap amount of HK$23,800,000 as shown in the announcements of the Company dated 13 April 2017 and 3 April 2020.

(iv) On 11 December 2018, the Company entered into the Master Services Agreement with永旺永樂（上海）企業管理有限公司 ("AEON Delight") for a period of three years commenced on 1 January 2019 and expiring on 31 December 2021. This Master Services Agreement was entered into on substantially the same terms as the Master Services Agreement that the Company entered into with AEON Delight (China) Co., Ltd., ("AEON Delight (China)") on 1 January 2016 which expired on 31 December 2018. AEON Delight is the contracting party to the Master Service Agreement in place of AEON Delight (China) due to the restructuring of AEON Delight and its group members ("AEON Delight Group"). AEON Delight is a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, the transactions under the Master Services Agreement constitute continuing connected transactions of the Company.

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

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

DIRECTORS' REPORT

In relation to the procurement process, the relevant members of the Company Group may, in their sole and absolute discretion, invite the AEON Delight Group to tender to provide certain Services. If the AEON Delight Group is invited to tender, the relevant member of the Company Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Company Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. After considering the abovementioned factors, the management of the relevant member of the Company Group will then decide on which bidder to engage and enter into a services contract with for the provision of Services.

Where a member of the AEON Delight Group is selected through relevant procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AEON Delight Group may from time to time (and AEON Delight shall procure such member of the AEON Delight Group to) enter into separate contracts setting out the detailed terms under which the relevant member of the AEON Delight Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on comparable terms to which the Company and/or the relevant member of the Group procures the Services from independent third parties.

The total aggregated amount of service fees paid and payable by the Company Group to AEON Delight Group in the year was RMB27,403,358. This amount does not exceed the cap amount of RMB45,000,000 as shown in the announcement of the Company dated 11 December 2018.

(v) On 23 November 2015, the subsidiary of the Company, Guangdong Aeon Teem Stores 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 RMB22,483,939. This amount does not exceed the cap amount of RMB37,900,000 as shown in the announcement of the Company dated 23 November 2015.

(vi) On 26 February 2019, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into a renewal agreement to renew the Master Agreement in relation to the sales of the Company's Gift Certificates to ACS for a term of three years from 1 March 2019 to 28 February 2022. The renewed Master Agreement was renewed on substantially the same terms as the Master Agreement that was entered on 1 March 2016 and expired on 28 February 2019. The Company and ACS are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, and ACS is therefore a connected person of the Company. The entering into the renewed Master Agreement constitutes continuing connected transactions of the Company.

Pursuant to the renewed Master Agreement, the Company sells its Gift Certificates to ACS at face value. The total amount of Gift Certificates sold by the Company to ACS in the year was HK$8,500,000. This amount does not exceed the cap amount of HK$16,500,000 as shown in the announcement of the Company dated 26 February 2019.

DIRECTORS' REPORT

(vii) On 16 January 2019, each of the Company, its two subsidiaries being Guangdong AEON Teem Stores Co., Ltd. ("GDA") and AEON South China Co., Ltd. ("ASC") and AEON (China) Co., Ltd. ("AEON China") entered into renewal agreements to renew the Consultancy Services Agreements for a period of three years from 1 January 2019 to 31 December 2021. The renewed Consultancy Services Agreements were renewed on substantially the same terms as the Consultancy Services Agreements that was entered by each of the Company, GDA and ASC with AEON China on 29 March 2016 and expired on 31 December 2018. AEON China is a subsidiary of AEON Co., Ltd. ("AEON Co"), the controlling shareholder of the Company, and AEON China is therefore a connected person of the Company. The entering into the renewed Consultancy Services Agreements constitutes continuing connected transactions of the Company.

Pursuant to the renewed Consultancy Services Agreements, the scope of the consultancy services to be provided by AEON China to the Company, GDA and ASC relates to (i) operational logistics; (ii) establishment of operating systems; (iii) procurement activities; (iv) market development; (v) staff training; and (vi) in accordance with specific requests of each of the Company, GDA and ASC, provide other consultancy services on production or operational related matters.

AEON China provided consultancy services to seven AEON group companies, including the Company, GDA, ASC and four subsidiaries of AEON Co. AEON China's service fees are charged on a cost-plus basis, representing its total costs of providing consultancy services to the seven companies, plus 5% of such costs. The service fee payable by each of the Company, GDA and ASC shall be a portion of such total amount, determined with reference to its number of stores that received such consultancy services during the relevant period, together with related taxes.

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

The total amount of Consultancy Services fees paid and payable by the Company, GDA and ASC to AEON China in the year was HK$13,388,693. This amount does not exceed the cap amount of HK$33,000,000 as shown in the announcement of the Company dated 16 January 2019.

(viii) On 3 December 2019, the Company and AEON GLOBAL SCM Co., Ltd., ("AGSCM Japan") entered into a Master Services Agreement, pursuant to which AGSCM Japan and its subsidiaries ("AGSCM Japan Group") will provide consultancy and logistics services ("Services") and the use of Warehouses to the Company and its subsidiaries ("Group"). The term of this Master Services Agreement shall be a period of three years from 3 December 2019 to 30 November 2022. AGSCM Japan is a connected person of the Company by virtue of it being a non-wholly owned subsidiary of AEON Co., Ltd., the controlling shareholder of the Company and the entering into of the Master Services Agreement in respect of the Services constitutes continuing connected transactions of the Company. The Group selects providers for the Services with reference to prevailing market conditions and based on a procurement process conducted on arm's length basis, and makes their selection based on normal commercial considerations. In relation to the procurement process, the relevant member of the Group may, in their sole and absolute discretion, invite the AGSCM Japan Group to tender to provide certain Services. If the AGSCM Japan Group is invited to tender, the relevant member of the Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. The relevant member of the Group will consider and compare the prices offered by the different bidders based on their respective monthly service fees. For logistics services, the manpower costs (based on fixed monthly rates that vary for the different personnel) and handling charges (based on fixed rates that vary depending on the type of merchandise involved and services provided) will also be considered. After considering the abovementioned factors, the management of the relevant member of the Group will then decide on which bidder to engage and enter into a service contract with for the provision of Services.

The transaction amount of the Master Services Agreement in the year was RMB10,607,527. This amount does not exceed the cap amount of RMB19,650,000 as shown in the announcement of the Company dated 3 December 2019.

DIRECTORS' REPORT

(ix) On 15 August 2017, Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company, and the Sublessees entered into the Sublease Agreements (as defined in the announcement dated 15 August 2017) in respect of the sublease of certain areas located at the 5th Floor Fortune Plaza West Tower, No. 118 Tiyu East Road, Tian He District, Guangzhou. Pursuant to the Sublease Agreements, each of the Sublessees pays deposits, rents, management fees, utilities charges and other fees in relation to the use of the Sublease Premises to GDA. The Sublease Agreements have a term of three years from 1 August 2017 to 31 July 2020. Each of the Sublessees 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 each of the Sublease Agreements constitutes continuing connected transactions of the Company. The terms of the Sublease Agreements have been reached after arm's length negotiations between the relevant parties. The total amount of rents, management fees, utilities expenses and other fees received by GDA in the year was RMB1,528,923. This amount does not exceed the cap amount of RMB1,600,000 as shown in the announcement of the Company dated 15 August 2017.

(x) On 31 July 2020, the Company and 永旺數字科技有限公司 ("ADMC") (formerly known as AEON信息系统集成（杭州）有限公司 ("AIBS)) entered into the Renewed IT Master Agreement to renew the IT Master Agreement entered into between the Company and ADMC on 30 August 2017. Pursuant to which ADMC shall provide the Services (as defined in the announcement dated 31 July 2020) to the Company and any of its subsidiaries, each a "Member". The term of the IT Master Agreement shall be a period of three years from 30 August 2020 to 29 August 2023. ADMC is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Renewed IT Master Agreement constitute continuing connected transactions of the Company. Pursuant to the Renewed IT Master Agreement, the fees for the provision of Services by ADMC shall be charged on a cost-plus basis, representing the Actual Costs plus a mark-up rate of not more than 10%. The prices offered by ADMC shall be no less favourable than (i) prices available in the market for the same or similar services; and (ii) the prices offered by ADMC to its other Users (i.e. parties, including the Members, who are using the services provided by ADMC which are the same as or similar to the Services), if any. The total aggregated amount of service fees paid and payable by the Company Group to ADMC in the year was RMB20,547,485. This amount does not exceed the relevant aggregated cap amount of RMB35,700,000 as shown in the announcements of the Company dated 30 August 2017 and 4 December 2020.

(xi) On 15 December 2020, Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company and永旺夢樂城（佛山南海）商業管理有限公司 ("AMBM") entered into the Master Agreements to govern certain transactions arising out of GDA's lease of the premises at 佛山市南海區大瀝鎮聯滘滘口路13號負一層店號0001，一層店號1001，二層店號2001，三層店號3001. The term of the Master Agreement shall be a period of three years from 19 December 2020 to 18 December 2023. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions of the Company. GDA's leased premises are located in the Dali Mall and AMBM is the head tenant of the Dali Mall. AMBM, as head tenant, is responsible for making payment of utilities expenses and property management fees in respect of the entire Dali Mall. The amounts paid by GDA to AMBM pursuant to the Master Agreement represent GDA's proportionate contribution to such expenses and fees, which will then be paid by AMBM to relevant authorities or parties on behalf of GDA. The rates for utilities expenses and property management fees are no less favourable than those applicable to AMBM or its other tenants. The total aggregated amount of the fees paid and payable by the GDA to AMBM in the year was RMB4,522,031. This amount does not exceed the aggregated relevant cap amount of RMB7,190,000 as shown in the announcements of the Company dated 7 November 2017 and 15 December 2020.

(xii) On 31 December 2018, the Company and AEON TopValu Co., Ltd. ("TopV") entered into the Master Trademark Licence Agreement in respect of the granting of the licence to use the TopValu Trademarks and the related ancillary services to be provided by the TopV Group. The term of the Master Trademark Licence Agreement commenced from 1 January 2019 for a period of three years to 31 December 2021. TopV is a connected person of the Company by virtue of it being a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Master Trademark Licence Agreement constitute continuing connected transactions of the Company.

DIRECTORS' REPORT

Pursuant to the Master Trademark Licence Agreement, TopV agreed to (i) grant (and/or procure other members of the TopV Group to grant) to members of the Group the licence to use the TopValu Trademarks and (ii) provide (and/or procure other members of the TopV Group to provide) the ancillary services to the members of the Group. In consideration to the grant of the licence to use the TopValu Trademarks and the ancillary services, the relevant member of the Group shall pay to the relevant member of the TopV Group a licence fee equivalent to 7% of the amount of purchase costs of the TopV Products (excluding any value added tax or other tax or freight expenses) supplied by manufacturers or suppliers to the Group.

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

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

(ii) establish product specifications;

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

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

(v) provide information on promotion; and

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

The total aggregated amount of the fees paid and payable by the Group to TopV Group in the year was HK$12,309,335. This amount does not exceed the cap amount of HK$28,000,000 as shown in the announcement of the Company dated 31 December 2018.

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

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

Utilities expenses incurred by GDA in the Premises, comprising water and electricity expenses, were determined with reference to the actual usage of GDA and local municipal standard rates for electricity charges and water charges and were payable by GDA. Expenses incurred for use of lifts and escalators within the area leased by GDA were payable by GDA. Expenses incurred for use of lifts and escalators located in areas which exceed the Premises were payable by GDA on a pro rata basis based on area leased by GDA.

The total aggregated amount of the utilities expenses paid and payable by GDA to AMBM in the year was RMB4,005,246. This amount does not exceed the cap amount of RMB5,200,000 as shown in the announcement of the Company dated 29 January 2019.

DIRECTORS' REPORT

(xiv) On 30 March 2020, 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 2020 to 31 March 2021 at licence fees of HK$229,427 per month exclusive of government rates and management fees. ACS and the Company are both subsidiaries of AEON Co., Ltd., the controlling shareholder of the Company. ACS is therefore a connected person of the Company and the transactions contemplated under the Licence Agreement constitute continuing connected transactions of the Company.

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

During the term of the licence, ACS shall:

(i) pay to the Company licence fees of HK$229,427 per month;

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

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

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

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

The total aggregated amount of the licence fees, management fees, government rates and utilities charges to ACS by the Company in the year was HKD2,285,264. This amount does not exceed the cap amount of HKD2,450,000 as shown in the announcement of the Company dated 30 March 2020.

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

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

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

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

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

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

DIRECTORS' REPORT

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

The total aggregated amount of the fees received and receivable by ASC in the year was RMB4,542,134. This amount does not exceed the cap amount of RMB6,400,000 as shown in the announcement of the Company dated 29 May 2020.

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

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

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

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

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

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

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

The total aggregated amount of the rent, management fees, utilities expenses and other fees paid by GDA to AEON Mall in the year was RMB Nil. This amount does not exceed the cap amount of RMB200,000 as shown in the announcement of the Company dated 17 August 2020.

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

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

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

Independence of Independent Non-executive Directors

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

Substantial Shareholders

At 31 December 2020, 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:

Name of substantial shareholders	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co., Ltd.	157,536,000 (Note 1)	60.59
Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	17,435,000 (Note 2)	6.71

Note 1: These shares are held as to 155,760,000 shares by AEON Co., Ltd. and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS").

ACS is owned by AEON Co., Ltd., as to 281,138,000 shares representing 67.13% of the issued share capital of ACS. AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

Note 2: As confirmed by Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group"), these shares are held by the Aberdeen Group on behalf of accounts managed by the Aberdeen Group in the capacity of an investment manager and the Aberdeen Group has the power to vote on all the shares held.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2020.

Arrangements to Purchase Shares or Debentures

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

Purchase, Sale or Redemption of Listed Securities

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

DIRECTORS' REPORT

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$1,160,000.

Major Customers and Suppliers

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

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

Emolument Policy

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

Retirement Schemes

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

Sufficiency of Public Float

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the year ended 31 December 2020 and up to the date of this report.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

HABU Yuki
Chairman

Hong Kong, 25 March 2021

INDEPENDENT AUDITOR'S REPORT

Deloitte.　　德勤

TO THE MEMBERS OF AEON STORES (HONG KONG) CO., LIMITED
永旺（香港）百貨有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 55 to 123, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
We identified the impairment of goodwill as a key audit matter as significant judgement is required to assess the impairment of goodwill. As at 31 December 2020, goodwill, arising from acquisition of an additional 35% interest in AEON South China Co., Ltd. in 2008 which operates retail stores business in the People's Republic of China, amounted to HK$62,838,000. As further disclosed in notes 4 and 22 to the consolidated financial statements, determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. Based on the management's assessment, impairment loss on goodwill of HK$32,000,000 was recognised in profit or loss for the year ended 31 December 2020.	Our procedures in relation to management's impairment assessment include: • Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating unit and checking arithmetic accuracy of the forecast calculation; • Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness; • Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors; • Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; • Evaluating the accuracy of historical cash flow forecasts prepared by the management by comparing the historical cash flow forecasts with the actual performance; and • Evaluating the sufficiency of the disclosure of impairment assessment by management in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

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

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

As at 31 December 2020, property, plant and equipment amounted to HK$645,756,000, net of accumulated impairment losses of HK$94,451,000 while right-of-use assets recognised in accordance with HKFRS 16 *Leases* amounted to HK$3,762,037,000, net of accumulated impairment losses of HK$14,834,000.

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

Based on the management's assessment, impairment losses on property, plant and equipment, and right-of-use assets of HK$1,049,000 and HK$5,413,000, respectively, were recognised in profit or loss for the year ended 31 December 2020.

How our audit addressed the key audit matter

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

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified the valuation of inventories as a key audit matter due to the use of judgement in identifying obsolete and slow moving inventories and determining the net realisable values ("NRVs") to assess the amount of allowance/write-down. As at 31 December 2020, inventories comprise of merchandise held for resale amounting to HK$889,997,000 which are carried at the lower of cost and NRVs. As disclosed in note 4 of the consolidated financial statements, the determination of the amount of allowance requires assessment of NRVs of inventories by the management and the consideration of the conditions and age of the inventories, customer demand and subsequent sales information. The Group carried out an inventory review at the end of the reporting period and made the necessary allowance for obsolete and slow moving items so as to write off or write down inventories to their NRVs. The Group has written-down inventories of HK$2,884,000 to their NRVs for the year ended 31 December 2020.	Our procedures in relation to the valuation of the inventories include: • Understanding the inventories allowance/write-down policy of the Group; • Assessing the reasonableness of the inventories allowance/write-down made by the Group by obtaining the inventory aging analysis from management and discussing with management the basis of inventory allowance/write-down; • Testing inventory aging analysis, on a sample basis, to the goods receipt documents and assessing the accuracy of the underlying data used to determine the allowance/write-down and re-performing the allowance/write-down calculation to check arithmetic accuracy; • Understanding from management the rationale for the specific adjustments based on the customer demand and conditions of the inventories and challenged the assumption made where there are specific adjustments on the inventories allowance/write-down; and • Assessing the sufficiency of the allowance/write-down on inventories made by management with reference to the inventory ageing analysis and the subsequent transaction prices of the inventories, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Tan Wei Ming.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
25 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 HK$'000	2019 HK$'000
Revenue	5	**9,961,893**	9,493,774
Other income	7	**583,928**	545,918
Investment income	8	**22,411**	27,430
Interest income from rental deposits		**10,767**	10,316
Purchases of goods and changes in inventories		**(7,082,877)**	(6,656,159)
Staff costs		**(1,061,224)**	(1,077,474)
Depreciation of investment properties	21	**(83,913)**	(85,247)
Depreciation of property, plant and equipment	18	**(204,694)**	(209,769)
Depreciation of right-of-use assets	19	**(724,225)**	(749,094)
Lease expenses		**(91,275)**	(84,831)
Other expenses	9	**(1,040,881)**	(1,063,992)
Pre-operating expenses	10	**(2,823)**	(2,694)
Other gains and losses	11	**(14,581)**	(12,719)
Interest on lease liabilities		**(292,755)**	(303,414)
Loss before tax		**(20,249)**	(167,955)
Income tax expense	12	**(9,987)**	(21,032)
Loss for the year	13	**(30,236)**	(188,987)
(Loss) profit for the year attributable to:			
Owners of the Company		**(36,806)**	(188,726)
Non-controlling interest		**6,570**	(261)
		(30,236)	(188,987)
Loss per share — basic	17	**14.16 HK cents**	72.59 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 **HK$'000**	2019 HK$'000
Loss for the year	**(30,236)**	(188,987)
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss:		
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	**(3,750)**	(2,947)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**3,279**	(453)
Other comprehensive expense for the year, net of income tax	**(471)**	(3,400)
Total comprehensive expense for the year	**(30,707)**	(192,387)
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(44,931)**	(190,768)
Non-controlling interest	**14,224**	(1,619)
	(30,707)	(192,387)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTES	2020 HK$'000	2019 HK$'000
Non-current Assets			
Property, plant and equipment	18	**645,756**	679,741
Right-of-use assets	19	**3,762,037**	3,902,352
Investment properties	21	**479,890**	488,352
Goodwill	22	**62,838**	94,838
Equity instruments at FVTOCI	23	**19,848**	23,598
Pledged bank deposits	24	**22,417**	21,305
Deferred tax assets	25	**44,819**	46,944
Rental and related deposits paid	26	**201,724**	184,349
		5,239,329	5,441,479
Current Assets			
Inventories	27	**889,997**	935,949
Trade receivables	26	**37,809**	35,316
Other receivables, prepayments and deposits	26	**102,112**	83,346
Amounts due from fellow subsidiaries	28	**62,690**	63,995
Tax recoverable		**–**	8,532
Time deposits	29	**463,740**	327,567
Pledged bank deposits	24	**10,230**	10,751
Bank balances and cash	30	**1,537,837**	1,470,515
		3,104,415	2,935,971
Current Liabilities			
Trade payables	31	**1,231,199**	1,250,087
Other payables, accrued charges and other liabilities	31	**753,530**	729,068
Lease liabilities	32	**711,073**	762,137
Contract liabilities	31	**441,548**	409,426
Dividend payable		**295**	354
Amount due to ultimate holding company	33	**26,998**	28,665
Amounts due to fellow subsidiaries	33	**28,933**	100,979
Tax liabilities		**5,150**	16,859
		3,198,726	3,297,575
Net Current Liabilities		**(94,311)**	(361,604)
Total Assets Less Current Liabilities		**5,145,018**	5,079,875

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTES	2020 HK$'000	2019 HK$'000
Capital and Reserves			
Share capital	34	**115,158**	115,158
Reserves		**587,498**	658,374
Equity attributable to owners of the Company		**702,656**	773,532
Non-controlling interest		**146,976**	132,752
Total Equity		**849,632**	906,284
Non-current Liabilities			
Rental deposits received and other liabilities	31	**135,579**	133,916
Lease liabilities	32	**4,159,573**	4,038,563
Deferred tax liabilities	25	**234**	1,112
		4,295,386	4,173,591
		5,145,018	5,079,875

The consolidated financial statements on pages 55 to 123 were approved and authorised for issue by the board of directors on 25 March 2021 and are signed on its behalf by:

YUKI HABU
Director

ISEI NAKAGAWA
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	The People's Republic of of China (the "PRC") statutory reserves HK$'000	Non-distributable reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2019	115,158	24,141	29,108	33,316	121,638	755,212	1,078,573	137,136	1,215,709
Loss for the year	–	–	–	–	–	(188,726)	(188,726)	(261)	(188,987)
Other comprehensive (expense) income for the year	–	(2,947)	905	–	–	–	(2,042)	(1,358)	(3,400)
Total comprehensive (expense) income for the year	–	(2,947)	905	–	–	(188,726)	(190,768)	(1,619)	(192,387)
Transfer of reserves	–	–	–	1,052	12,897	(13,949)	–	–	–
Dividends recognised as distribution (note 16)	–	–	–	–	–	(114,400)	(114,400)	–	(114,400)
Dividend paid to a non-controlling shareholder	–	–	–	–	–	–	–	(2,765)	(2,765)
Unclaimed dividends forfeited	–	–	–	–	–	127	127	–	127
At 31 December 2019	**115,158**	**21,194**	**30,013**	**34,368**	**134,535**	**438,264**	**773,532**	**132,752**	**906,284**
(Loss) profit for the year	**–**	**–**	**–**	**–**	**–**	**(36,806)**	**(36,806)**	**6,570**	**(30,236)**
Other comprehensive (expense) income for the year	**–**	**(3,750)**	**(4,375)**	**–**	**–**	**–**	**(8,125)**	**7,654**	**(471)**
Total comprehensive (expense) income for the year	**–**	**(3,750)**	**(4,375)**	**–**	**–**	**(36,806)**	**(44,931)**	**14,224**	**(30,707)**
Transfer of reserves	**–**	**–**	**–**	**1,782**	**–**	**(1,782)**	**–**	**–**	**–**
Dividends recognised as distribution (note 16)	**–**	**–**	**–**	**–**	**–**	**(26,000)**	**(26,000)**	**–**	**(26,000)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**–**	**–**	**55**	**55**	**–**	**55**
At 31 December 2020	**115,158**	**17,444**	**25,638**	**36,150**	**134,535**	**373,731**	**702,656**	**146,976**	**849,632**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 HK$'000	2019 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(20,249)**	(167,955)
Adjustments for:		
Depreciation of investment properties	**83,913**	85,247
Depreciation of property, plant and equipment	**204,694**	209,769
Depreciation of right-of-use assets	**724,225**	749,094
Interest on lease liabilities	**292,755**	303,414
Interest income from rental deposits	**(10,767)**	(10,316)
Impairment loss recognised in respect of goodwill	**32,000**	—
Impairment loss recognised in respect of property, plant and equipment	**1,049**	1,021
Impairment loss recognised in respect of right-of-use assets	**5,413**	7,963
Investment income	**(22,411)**	(27,430)
Loss on disposal/written off of property, plant and equipment	**4,703**	3,394
Write-down (write-back) of inventories	**2,884**	(2,938)
Gain on termination of lease contracts	**(5,374)**	(8,615)
Operating cash flows before movements in working capital	**1,292,835**	1,142,648
Decrease (increase) in inventories	**67,115**	(81,808)
(Increase) decrease in trade receivables	**(1,461)**	19,881
Increase in other receivables, prepayments and deposits	**(27,821)**	(8,975)
Decrease (increase) in amounts due from fellow subsidiaries	**1,340**	(10,193)
(Decrease) increase in trade payables	**(51,574)**	6,609
Increase (decrease) in other payables, accrued charges and other liabilities	**3,555**	(45,833)
Increase in contract liabilities	**11,262**	20,190
Decrease in amount due to ultimate holding company	**(1,667)**	(2,315)
Increase in amounts due to fellow subsidiaries	**10,187**	25,435
Cash generated from operations	**1,303,771**	1,065,639
Income taxes paid	**(18,680)**	(9,748)
Income taxes refunded	**8,532**	731
Interest on bank deposits and time deposits received	**23,318**	19,957
NET CASH FROM OPERATING ACTIVITIES	**1,316,941**	1,076,579
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(990)**	(8,302)
Withdrawal of pledged bank deposits	**2,127**	15,579
Dividends from equity instruments at FVTOCI	**1,673**	1,673
Purchase of property, plant and equipment	**(155,878)**	(161,770)
Proceeds from disposal of property, plant and equipment	**212**	223
Payment for right-of-use assets	**(1,079)**	(14,092)
Payment for rental deposits	**(17,818)**	(3,187)
Placement of time deposits	**(1,290,117)**	(945,730)
Withdrawal of time deposits	**1,164,455**	972,345
NET CASH USED IN INVESTING ACTIVITIES	**(297,415)**	(143,261)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 HK$'000	2019 HK$'000
FINANCING ACTIVITIES		
Dividends paid	**(26,004)**	(114,345)
Dividends paid to a non-controlling interest of a subsidiary	**—**	(2,765)
Interest on lease liabilities	**(292,755)**	(303,414)
Repayment of lease liabilities	**(669,090)**	(685,571)
CASH USED IN FINANCING ACTIVITIES	**(987,849)**	(1,106,095)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**31,677**	(172,777)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,470,515**	1,651,349
Effect of foreign exchange rate changes	**35,645**	(8,057)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**1,537,837**	1,470,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. General

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

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

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

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

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

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

Amendment to HKFRS 16 *Covid-19-Related Rent Concessions*

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

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

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

The application is not expected to have impact on the Group's financial position and performance as the Group does not intend to apply the practical expedient.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

3.1 Basis of preparation of consolidated financial statements

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

The directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$94,311,000 at 31 December 2020. The directors of the Company have reviewed the cash flow projections prepared by management to evaluate the Group's ability to continue as a going concern. Based on the cash flow projections, the directors of the Company have a reasonable expectation that the Group has adequate resources to continue in operational existence and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2020. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

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

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

Goodwill

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

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

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

Principal versus agent

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

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

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets (Continued)

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

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

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

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

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

Lease modifications

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

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

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

Allocation of consideration to components of a contract

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

Refundable rental deposits

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

Sub-lease

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

Lease modification

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

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Foreign currencies

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

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

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Pre-operating expenses

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

Retirement benefits costs

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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

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

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

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

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

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

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant 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 accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

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

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

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

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

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

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 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

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

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

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

Inventories

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

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Provisions (Continued)

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

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(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 retained profits.

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

Impairment of financial assets

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

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

The Group always recognises lifetime ECL for trade receivables.

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

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

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

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

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

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

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

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

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

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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 retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Derecognition of financial liabilities

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

4. Key Sources of Estimation Uncertainty

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

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

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

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FOR THE YEAR ENDED 31 DECEMBER 2020

4. Key Sources of Estimation Uncertainty (Continued)

Impairment of goodwill

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

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

Impairment of property, plant and equipment, 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, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including growth rates, budgeted sales, gross margins and an appropriate discount rate. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts. Furthermore, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions in the Group's operation of retail stores.

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

Net realisable value of inventories

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

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

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 obtains control of the goods.

(i) Disaggregation of revenue from contracts with customers

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

	For the year ended 31 December 2019		
	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Direct sales	3,909,190	4,917,032	8,826,222
Income from concessionaire sales	329,762	337,790	667,552
	4,238,952	5,254,822	9,493,774

(ii) Performance obligations for contracts with customers

Direct sales

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

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

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

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

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

5. Revenue (Continued)

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

Income from concessionaire sales

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

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

As at 31 December 2020 and 2019, the remaining performance obligations (unsatisfied or partially unsatisfied) are part of contracts that have original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. Operating Segments

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

Segment revenues and results

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

For the year ended 31 December 2020

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

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FOR THE YEAR ENDED 31 DECEMBER 2020

6. Operating Segments (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2019

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue — external	4,238,952	5,254,822	9,493,774
Segment loss	(114,775)	(80,610)	(195,385)
Investment income			27,430
Loss before tax			(167,955)

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

Inter-segment revenue is charged at prevailing market rates.

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

Other segment information

For the year ended 31 December 2020

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

6. Operating Segments (Continued)

Other segment information (Continued)

For the year ended 31 December 2019

	Hong Kong HK$'000	PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation of investment properties	44,360	40,887	85,247
Depreciation of property, plant and equipment	106,541	103,228	209,769
Depreciation of right-of-use assets	509,339	239,755	749,094
Impairment loss recognised in respect of property, plant and equipment	1,021	—	1,021
Impairment loss recognised in respect of right-of-use assets	2,948	5,015	7,963
Loss on disposal/written off of property, plant and equipment	432	2,962	3,394
Gain on termination of lease contracts	(409)	(8,206)	(8,615)
Write-back of inventories	(2,938)	—	(2,938)
Interest on lease liabilities	167,808	135,606	303,414

Geographical information

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

	2020 HK$'000	2019 HK$'000
Hong Kong	**2,823,655**	3,280,078
PRC	**2,265,752**	1,974,716
	5,089,407	5,254,794

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.

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7. Other Income

	2020 HK$'000	2019 HK$'000
Rental income from investment properties	**329,335**	395,039
Government grants	**146,429**	258
Management fee and other income from sub-leases	**77,094**	91,109
Compensation from closure of store	**–**	7,020
Others	**31,070**	52,492
	583,928	545,918

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

8. Investment Income

	2020 HK$'000	2019 HK$'000
Dividends from equity instruments at FVTOCI	**1,673**	1,673
Interest from bank and time deposits	**20,738**	25,757
	22,411	27,430

9. Other Expenses

	2020 HK$'000	2019 HK$'000
Advertising, promotion and selling expenses	**296,380**	273,952
Maintenance and repair expenses	**337,802**	351,463
Utilities expenses	**143,811**	164,470
Administrative expense	**182,904**	191,604
Others	**79,984**	82,503
	1,040,881	1,063,992

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FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 are staff costs of HK$2,731,000 (2019: HK$2,115,000).

11. Other Gains and Losses

	2020 HK$'000	2019 HK$'000
Exchange gain (loss), net	**11,551**	(8,956)
Impairment loss recognised in respect of goodwill	**(32,000)**	—
Impairment loss recognised in respect of property, plant and equipment	**(1,049)**	(1,021)
Impairment loss recognised in respect of right-of-use assets	**(5,413)**	(7,963)
Loss on disposal/written off of property, plant and equipment	**(4,703)**	(3,394)
Gain on termination of lease contracts	**5,374**	8,615
Insurance claims for damages from fire and flooding accident, net of loss incurred amounting to HK$11,484,000	**11,659**	—
	(14,581)	(12,719)

12. Income Tax Expense

	2020 HK$'000	2019 HK$'000
The charges comprise:		
Current tax		
PRC Enterprise Income Tax	**4,736**	18,766
PRC withholding tax	**1,843**	1,216
	6,579	19,982
Deferred tax (note 25)		
Current year	**3,408**	1,050
Income tax expense for the year	**9,987**	21,032

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

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FOR THE YEAR ENDED 31 DECEMBER 2020

12. Income Tax Expense (Continued)

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

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

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

	2020 HK$'000	2019 HK$'000
Loss before tax	**(20,249)**	(167,955)
Taxation at the applicable rate of 16.5% (Note)	**(3,341)**	(27,713)
Tax effect of expenses not deductible for tax purpose	**9,468**	5,435
Tax effect of income not taxable for tax purpose	**(30,021)**	(7,303)
Tax effect of deductible temporary difference not recognised	**14,871**	12,944
Tax effect of tax losses not recognised	**14,980**	29,872
Withholding tax on undistributed earnings of a subsidiary	**(879)**	(277)
Withholding tax on interest income of a subsidiary	**1,843**	1,216
Effect of different tax rates of entities operating in the PRC	**3,066**	6,858
Income tax expense	**9,987**	21,032

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

13. Loss for the Year

	2020 HK$'000	2019 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**5,278**	5,463
Expenses relating to		
— short-term leases and leases of low-value assets	**17,774**	23,520
— variable lease payment (Note)	**73,501**	61,311
	91,275	84,831
Retirement benefits scheme contributions	**78,631**	100,352
Gross rental income from investment properties		
— fixed	**(265,948)**	(339,374)
— variable (Note)	**(63,387)**	(55,665)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**122,270**	131,917
	(207,065)	(263,122)
Cost of inventories recognised as an expense	**7,082,877**	6,656,159
Write-down (write-back) of inventories (included in purchase of goods and changes in inventories)	**2,884**	(2,938)

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 2020

14. Directors' Emoluments

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

	Executive directors								Non-executive directors		Independent non-executive directors				
	Yuki Habu	Isei Nakagawa	Chak Kam Yuen	Lau Chi Sum, Sam	Takenori Nagashima	Shinya Hisanaga	Masamitsu Ikuta	Keiji Tsukahara	Yuki Habu	Akinori Yamashita	Chan Yi Jen, Candi Anna	Lo Miu Sheung, Betty	Chow Chi Tong	Hideto Mizuno	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note a)	(Note b)			(Note d)	(Note c)	(Note e)	(Note e)	(Note a)						
For the year ended 31 December 2020															
Fees	**–**	**–**	**70**	**70**	**–**	**–**	**–**	**–**	**–**	**–**	**180**	**170**	**180**	**170**	**840**
Other emoluments															
Salaries and other benefits	**–**	**1,630**	**1,060**	**972**	**1,577**	**789**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,028**
Performance based bonus (Note f)	**–**	**6**	**217**	**143**	**116**	**76**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**558**
Contributions to retirement benefits schemes	**–**	**377**	**73**	**67**	**164**	**36**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**717**
Total	**–**	**2,013**	**1,420**	**1,252**	**1,857**	**901**	**–**	**–**	**–**	**–**	**180**	**170**	**180**	**170**	**8,143**
For the year ended 31 December 2019															
Fees	–	–	70	70	–	–	–	–	–	–	180	170	180	170	840
Other emoluments															
Salaries and other benefits	411	994	1,078	988	367	–	1,252	1,062	–	–	–	–	–	–	6,152
Performance based bonus (Note f)	122	408	428	331	35	–	–	–	–	–	–	–	–	–	1,324
Contributions to retirement benefits schemes	–	212	73	67	35	–	–	–	–	–	–	–	–	–	387
Total	533	1,614	1,649	1,456	437	–	1,252	1,062	–	–	180	170	180	170	8,703

Notes:

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

(b) Mr. Isei Nakagawa was appointed as MD of the Company with effect from 16 May 2019. The Board of Directors considered that the duties of the MD were of no difference from that of a Chief Executive Officer stipulated under Provision A. 2 of the Code of Corporate Governance Practices in Appendix 14 of the Listing Rules. The management would regard that the term MD will have the same meaning as the Chief Executive Officer of the Company.

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

(d) Director was appointed during the year ended 31 December 2019.

(e) Director was resigned during the year ended 31 December 2019.

(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.

14. Directors' Emoluments (Continued)

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

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

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

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

15. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2019: none) were directors whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining three (2019: five) individuals were as follows:

	2020 **HK$'000**	2019 HK$'000
Salaries and other benefits	**5,996**	7,079
Performance based bonus	**837**	2,047
Contributions to retirement benefit schemes	**232**	686
	7,065	9,812

	2020 **No. of** **employees**	2019 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**1**	4
HK$2,000,001 to HK$2,500,000	**1**	—
HK$2,500,001 to HK$3,500,000	**1**	1

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

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15. Employees' Emoluments (Continued)

Other than the emoluments of two directors and three (2019: five) senior management individuals of the Group disclosed in note 14 and above, the emoluments of the remaining four (2019: five) senior management of the Group were within the following bands:

	2020 No. of employees	2019 No. of employees
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	2

16. Dividends

	2020 HK$'000	2019 HK$'000
Final dividend paid for 2019 of 5 HK cents (2019: 22 HK cents for 2018) per ordinary share	**13,000**	57,200
Interim dividend paid for 2020 of 5 HK cents (2019: 22 HK cents for 2019) per ordinary share	**13,000**	57,200
	26,000	114,400

The Board of Directors has recommended a final dividend of 5 HK cents per share (2019: 5 HK cents), in an aggregate amount of HK$26,000,000 (2019: HK$26,000,000) to be paid on or before 25 June 2021, subject to shareholders' approval at the forthcoming annual general meeting on 28 May 2021.

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$36,806,000 (2019: HK$188,726,000) and on 260,000,000 (2019: 260,000,000) ordinary shares in issue during the year.

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

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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 2019	1,712,344	621,706	4,493	68,177	2,406,720
Exchange adjustments	(11,179)	(3,674)	(22)	(249)	(15,124)
Additions	11,248	19,617	—	99,631	130,496
Transfer	90,318	52,414	—	(142,732)	—
Disposals/written off	(86,804)	(31,600)	(1,090)	—	(119,494)
At 31 December 2019	**1,715,927**	**658,463**	**3,381**	**24,827**	**2,402,598**
Exchange adjustments	**58,511**	**18,524**	**145**	**1,272**	**78,452**
Additions	**6,630**	**21,028**	**—**	**128,851**	**156,509**
Transfer	**96,611**	**30,960**	**—**	**(127,571)**	**—**
Disposals/written off	**(22,778)**	**(20,686)**	**(167)**	**—**	**(43,631)**
At 31 December 2020	**1,854,901**	**708,289**	**3,359**	**27,379**	**2,593,928**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2019	1,177,945	457,732	3,261	—	1,638,938
Exchange adjustments	(7,938)	(3,034)	(22)	—	(10,994)
Provided for the year	145,944	63,315	510	—	209,769
Eliminated on disposal/written off	(85,652)	(29,278)	(947)	—	(115,877)
Impairment losses recognised (note 20)	1,021	—	—	—	1,021
At 31 December 2019	**1,231,320**	**488,735**	**2,802**	**—**	**1,722,857**
Exchange adjustments	**43,801**	**14,352**	**136**	**—**	**58,289**
Provided for the year	**138,690**	**65,652**	**352**	**—**	**204,694**
Eliminated on disposal/written off	**(19,165)**	**(19,427)**	**(125)**	**—**	**(38,717)**
Impairment losses recognised (note 20)	**1,049**	**—**	**—**	**—**	**1,049**
At 31 December 2020	**1,395,695**	**549,312**	**3,165**	**—**	**1,948,172**
CARRYING VALUES					
At 31 December 2020	**459,206**	**158,977**	**194**	**27,379**	**645,756**
At 31 December 2019	484,607	169,728	579	24,827	679,741

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18. Property, Plant and Equipment (Continued)

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

19. Right-of-use Assets

	Leased properties HK$'000
As at 31 December 2020	
Carrying amount	**3,762,037**
As at 31 December 2019	
Carrying amount	**3,902,352**
For the year ended 31 December 2020	
Depreciation charge	**724,225**
Impairment loss recognised	**5,413**
For the year ended 31 December 2019	
Depreciation charge	**749,094**
Impairment loss recognised	**7,963**

	2020 **HK$'000**	2019 HK$'000
Expense relating to short-term leases (2019: short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16)	**10,320**	17,583
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**7,454**	5,937
Variable lease payments not included in the measurement of lease liabilities	**73,501**	61,311
Total cash outflow for leases	**1,072,017**	1,091,095
Additions to right-of-use assets	**576,786**	625,228

19. Right-of-use Assets (Continued)

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 (2019: 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.

The Group regularly entered into short-term leases for staff quarters, office equipment and advertising billboards. As at 31 December 2020 and 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases entered during the year, to which the short-term lease expense of HK$10,320,000 (2019: HK$17,583,000) was recognised in profit or loss.

Leases of retail stores are either with only fixed lease payments or contain variable lease payment that are based on 2.5% to 14.0% (2019: 2.5% to 14.0%) sales and minimum annual lease payment that are fixed over the lease term. Some variable payment terms include cap clauses. The payment terms are common in retail stores in Hong Kong and PRC where the Group operates. The amount of fixed and variable lease payments paid/payable to relevant lessors during the year are shown below:

For the year ended 31 December 2020

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

For the year ended 31 December 2019

	Number of premises	Fixed payments HK$'000	Variable payments HK$'000	Total payments HK$'000
Retail stores, warehouse and office without variable lease payments	38	315,381	—	315,381
Retail stores with variable lease payments	74	673,604	61,311	734,915
	112	988,985	61,311	1,050,296

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.

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19. Right-of-use Assets (Continued)

The Group has extension and/or termination options in a number of leases for retail stores (2019: 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.

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 2020 HK$'000	**Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2020 HK$'000**	Lease liabilities recognised as at 31 December 2019 HK$'000	Potential future lease payments not included in lease liabilities (undiscounted) 31 December 2019 HK$'000
Retail stores, warehouse and office — Hong Kong	**2,817,019**	**86,860**	3,193,919	147,293
Retail stores, warehouse and office — PRC	**2,053,627**	**830,035**	1,606,781	711,231

The following table summarised the additional lease liabilities recognised during the year ended 31 December 2020 and 2019 as a result of exercising extension option that the Group was not reasonably certain to exercise:

For the year ended 31 December 2020

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

For the year ended 31 December 2019

	Extension option exercisable No. of leases	Extension option exercised No. of leases
Retail stores — Hong Kong	2	2
Additional lease liabilities recognised (HK$'000)		10,634

19. Right-of-use Assets (Continued)

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

Restrictions or covenants on leases

As at 31 December 2020, lease liabilities of HK$4,870,646,000 are recognised with related right-of-use assets of HK$3,762,037,000 and investment properties of HK$479,890,000 (2019: lease liabilities of HK$4,800,700,000 and related right-of-use assets of HK$3,902,352,000 and investment properties of HK$488,352,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

20. Impairment Assessment on Property, Plant and Equipment, and Right-of-use Assets

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

The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, to the end of the relevant leases of the building fixtures and right-of-use assets with zero growth rate, and at a pre-tax discount rate ranging from 10% to 13% (2019: 10% to 13%). Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market.

Based on the result of the assessment, management of the Group determined that the recoverable amount of some cash-generating units are lower than the carrying amount. The impairment amount has been allocated to each category of property, plant and equipment, and right-of-use assets, such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, impairment loss of HK$1,049,000 and HK$5,413,000 (2019: HK$1,021,000 and HK$7,963,000), has been recognised against the carrying amounts of property, plant and equipment, and right-of-use assets, respectively.

During the year, accumulated impairment losses on property, plant and equipment of HK$1,833,000 (2019: HK$23,007,000) have been eliminated upon the disposal of building fixtures.

As at 31 December 2020, accumulated impairment losses on property, plant and equipment amounted to HK$94,451,000 (2019: HK$92,565,000).

During the year, accumulated impairment losses on right-of-use assets of HK$477,000 (2019: HK$nil) have been eliminated upon the expiration of lease contracts.

As at 31 December 2020, accumulated impairment losses on right-of-use assets amounted to HK$14,834,000 (2019: HK$9,382,000).

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21. Investment Properties

The Group leases out retail stores under operating leases with rentals payable monthly. The leases typically run for an initial period of one to fifteen years (2019: one to fourteen years). The leases of retail stores contain variable lease payment that are based on 5.0% to 30.0% (2019: 5.0% to 30.0%) of sales and minimum annual lease payment that are fixed over the lease term.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

For the year ended 31 December 2020, cash outflow for leases of HK$101,920,000 (2019: HK$80,504,000) represented the amounts paid for leased properties under sub-leases.

	Leased properties HK$'000
COST	
At 1 January 2019	531,116
Exchange adjustments	(3,034)
Additions	58,706
Reclassification to right-of-use assets (Note)	(10,153)
At 31 December 2019	**576,635**
Exchange adjustments	**18,253**
Additions	**119,490**
Reclassification to right-of-use assets (Note)	**(73,824)**
At 31 December 2020	**640,554**
DEPRECIATION	
At 1 January 2019	5,334
Exchange adjustments	(1,142)
Provided for the year	85,247
Eliminated on reclassification to right-of-use assets (Note)	(1,156)
At 31 December 2019	**88,283**
Exchange adjustments	**3,603**
Provided for the year	**83,913**
Eliminated on reclassification to right-of-use assets (Note)	**(15,135)**
At 31 December 2020	**160,664**
CARRYING VALUES	
As 31 December 2020	**479,890**
At 31 December 2019	488,352

21. Investment Properties (Continued)

The fair value of the Group's investment properties at 31 December 2020 was HK$1,780,392,000 (2019: HK$1,758,820,000). The fair value has been arrived at based on a valuation carried out by Cushman & Wakefield Limited, an independent qualified valuer not connected to the Group which has appropriate professional qualifications and recent experience in the valuations of similar properties in the relevant locations.

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

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

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

	2020		2019	
	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	**194,005**	**556,829**	255,507	757,750
Retail stores located in PRC	**285,885**	**1,223,563**	232,845	1,001,070
	479,890	**1,780,392**	488,352	1,758,820

Note: The carrying amount of investment properties of HK$58,689,000 (2019: HK$8,997,000) has been transferred to right-of-use assets because its use has changed as evidenced by the commencement of owner-occupation.

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22. Goodwill

	HK$'000
COST	
At 1 January 2019, 31 December 2019 and 31 December 2020	94,838
IMPAIRMENT	
At 1 January 2019 and 31 December 2019	—
Impairment loss recognised	32,000
At 31 December 2020	**32,000**
CARRYING VALUES	
As 31 December 2020	**62,838**
At 31 December 2019	94,838

The amount represents goodwill arising from the acquisition of an additional 35% interest in AEON South China (as defined in note 43(a)) in 2008. AEON South China became a wholly-owned subsidiary of the Company subsequent to the additional acquisition.

The Group identifies the relevant retail stores business operated by AEON South China as a group of cash-generating units with synergy effects to which the goodwill of HK$62,838,000 (2019: HK$94,838,000) is allocated.

The recoverable amount of the group of cash-generating units has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2019: 5-yer period), and pre-tax discount rate of 12% (2019: 12%) that reflects current market assessment of the time value of money and the risks specific to the group of cash-generating units. The cash flows beyond 5-year period are extrapolated using a zero growth rate. In the case of other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margins, such estimation is based on the cash-generating units' past performance and management's expectations for the future changes in the market.

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

If the pre-tax discount rate changed to 13%, while other parameters remain constant, a further impairment of goodwill of HK$10,133,000 would be recognised.

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23. Equity Instruments at FVTOCI

	2020	2019
	HK$'000	HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**19,848**	23,598

The listed shares in Hong Kong mainly represents an investment in a fellow subsidiary of HK$19,677,000 (2019: HK$23,385,000).

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

24. Pledged Bank Deposits

	2020		2019	
	Non-current	**Current**	Non-current	Current
	HK$'000	**HK$'000**	HK$'000	HK$'000
Bank deposits were pledged for the following purpose:				
As guarantee to:				
— landlords for rental deposits	**22,417**	**2,587**	21,305	2,841
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**—**	**7,643**	—	7,910
	22,417	**10,230**	21,305	10,751

Details of impairment assessment are set out in note 41.

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25. Deferred Taxation

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

	Decelerated tax depreciation HK$'000	Provision for staff costs and other expenses HK$'000	Other temporary differences HK$'000	Undistributed profits of subsidiaries HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2019	7,360	35,677	634	(1,389)	5,065	47,347
Exchange adjustments	(29)	(433)	–	–	(3)	(465)
(Charge) credit to profit or loss	(2,060)	1,109	–	277	(376)	(1,050)
At 31 December 2019	5,271	36,353	634	(1,112)	4,686	45,832
Exchange adjustments	**54**	**2,107**	**–**	**–**	**–**	**2,161**
(Charge) credit to profit or loss	**(4,005)**	**(281)**	**–**	**878**	**–**	**(3,408)**
At 31 December 2020	**1,320**	**38,179**	**634**	**(234)**	**4,686**	**44,585**

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

	2020 HK$'000	2019 HK$'000
Deferred tax assets	**44,819**	46,944
Deferred tax liabilities	**(234)**	(1,112)
	44,585	45,832

Furthermore, the Group had unused tax losses of HK$714,456,000 (2019: HK$625,273,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of HK$28,438,000 (2019: HK$28,438,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams for the relevant subsidiaries. Included in unrecognised tax losses are losses of HK$205,896,000 (2019: HK$167,222,000) that will expire as follows. Other losses may be carried forward indefinitely.

	2020 HK$'000	2019 HK$'000
31 December 2023	**66,686**	67,331
31 December 2024	**98,934**	99,891
31 December 2025	**40,276**	–

At the end of the reporting period, the Group had other deductible temporary difference of HK$557,572,000 (2019: HK$481,224,000). A deferred tax asset has been recognised in respect of deductible temporary difference of HK$163,927,000 (2019: HK$182,735,000). No deferred tax asset has been recognised in respect of the remaining deductible difference of HK$393,645,000 (2019: HK$298,489,000).

26. Trade Receivables, Other Receivables, Prepayments and Deposits

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

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

	2020 **HK$'000**	2019 HK$'000
Within 30 days	**37,618**	35,128
31 to 60 days	**158**	13
Over 60 days	**33**	175
Trade receivables	**37,809**	35,316
Rental and related deposits paid	**214,339**	202,555
Other receivables, prepayments and other deposits	**89,497**	65,140
	303,836	267,695
Less: Rental and related deposits paid under non-current assets	**(201,724)**	(184,349)
Other receivables, prepayments and deposits	**102,112**	83,346

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

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

27. Inventories

Inventories represent merchandise held for resale.

During the year, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group has written down inventories of HK$2,884,000 (2019: written back inventories of HK$2,938,000) to their net realisable values and included in "Purchases of goods and changes in inventories".

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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 (2019: 15 to 35 days). The amounts have an age of 0 to 35 days (2019: 0 to 35 days) since the invoice date and not yet due at the end of the respective reporting periods.

Details of impairment assessment are set out in note 41.

29. Time Deposits

As at 31 December 2020, time deposits represent time deposits denominated in RMB and HKD amounting to HK$251,790,000 and HK$211,950,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in RMB and HKD are 2.05% and 0.69% per annum, respectively. The deposits will expire within one year from the end of the reporting period. Accordingly, these amounts are classified as current assets.

As at 31 December 2019, time deposits represent time deposits denominated in RMB, United States dollars ("USD") and HKD amounting to HK$213,561,000, HK$55,006,000 and HK$59,000,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in RMB, USD and HKD are 2.09%, 2.17% and 2.19% per annum, respectively. The deposits expired during the year ended 31 December 2020.

Details of impairment assessment are set out in note 41.

30. Bank Balances and Cash

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which range from 0.01% to 2.56% (2019: 0.01% to 2.85%) per annum.

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

	2020 **HK$'000**	2019 HK$'000
HKD	**180**	171
USD	**10,043**	128,082
Japanese Yen ("JPY")	**29,138**	6,665
RMB	**7,259**	43,304

Details of impairment assessment are set out in note 41.

31. Trade Payables, Other Payables, Accrued Charges and Other Liabilities, and Contract Liabilities

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

	2020 HK$'000	2019 HK$'000
0 to 60 days	**1,054,564**	1,076,522
61 to 90 days	**61,301**	70,460
Over 90 days	**115,334**	103,105
Trade payables	**1,231,199**	1,250,087

The average credit period on purchases of goods is 60 days (2019: 60 days).

	2020 HK$'000	2019 HK$'000
Accrued expenses and other liabilities	**379,917**	409,028
Accrued staff costs	**261,597**	222,939
Value added tax payables for advance receipts on prepaid store-value cards	**47,451**	44,354
Payables for purchase of property, plant and equipment	**11,964**	11,333
Provision for reinstatement (Note)	**92,814**	92,271
Rental deposits received	**95,366**	83,059
	889,109	862,984
Less: Rental deposits received and other liabilities under non-current liabilities	**(135,579)**	(133,916)
Other payables, accrued charges and other liabilities	**753,530**	729,068

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

	HK$'000
At 1 January 2020	**92,271**
Additional provision in the year	**2,734**
Utilization of provision	**(2,644)**
Exchange realignments	**453**
At 31 December 2020	**92,814**

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31. Trade Payables, Other Payables, Accrued Charges and Other Liabilities, and Contract Liabilities (Continued)

The following is an analysis of contract liabilities:

	2020 **HK$'000**	2019 HK$'000
Advance receipts on prepaid store-value cards	**399,819**	378,147
Deferred revenue	**41,729**	31,279
	441,548	409,426

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:

	2020 **HK$'000**	2019 HK$'000
Balance at the beginning of the year	**409,426**	393,557
Decrease in contract liabilities as a result of recognising revenue during the year	**(417,417)**	(396,530)
Increase in contract liabilities as a result of receiving consideration	**428,679**	416,720
Exchange realignments	**20,860**	(4,321)
Balance at the end of the year	**441,548**	409,426

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.

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FOR THE YEAR ENDED 31 DECEMBER 2020

32. Lease Liabilities

	2020 HK$'000	2019 HK$'000
Lease liabilities payable:		
Within one year	**711,073**	762,137
Within a period of more than one year but not more than two years	**773,163**	750,152
Within a period of more than two years but not more than five years	**1,944,865**	2,059,323
Within a period of more than five years	**1,441,545**	1,229,088
	4,870,646	4,800,700
Less: Amount due for settlement within 12 months shown under current liabilities	**(711,073)**	(762,137)
Amount due for settlement after 12 months shown under non-current liabilities	**4,159,573**	4,038,563

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 (2019: 60 to 90 days). The amounts have an age of 60 to 90 days (2019: 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 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**260,000,000**	115,158

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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:

	2020 HK$'000	2019 HK$'000
Non-current Assets		
Property, plant and equipment	**265,657**	299,586
Right-of-use assets	**2,198,204**	2,571,597
Investment properties	**194,005**	255,507
Investments in subsidiaries	**197,137**	197,137
Equity instruments at FVTOCI	**19,848**	23,598
Loan to a subsidiary	**171,393**	150,805
Deferred tax assets	**4,499**	4,499
Rental and related deposits paid	**165,790**	153,388
	3,216,533	3,656,117
Current Assets		
Inventories	**439,152**	474,926
Trade receivables	**18,739**	14,448
Other receivables, prepayments and deposits	**48,642**	52,864
Amounts due from subsidiaries	**5,428**	5,741
Amounts due from fellow subsidiaries	**62,919**	63,648
Tax recoverable	**–**	8,532
Time deposits	**269,087**	115,844
Bank balances and cash	**810,001**	810,828
	1,653,968	1,546,831
Current Liabilities		
Trade payables	**616,606**	631,192
Other payables, accrued charges and other liabilities	**425,980**	416,308
Lease liabilities	**487,584**	451,044
Contract liabilities	**42,940**	41,737
Dividend payable	**295**	354
Amount due to ultimate holding company	**26,998**	28,665
Amounts due to fellow subsidiaries	**2,083**	2,131
	1,602,486	1,571,431
Net Current Assets (Liabilities)	**51,482**	(24,600)
Total Assets Less Current Liabilities	**3,268,015**	3,631,517

35. Statement of Financial Position of the Company (Continued)

	2020 **HK$'000**	2019 HK$'000
Capital and Reserves		
Share capital	**115,158**	115,158
Reserves	**734,932**	680,503
	850,090	795,661
Non-current Liabilities		
Rental deposits received and other liabilities	**88,256**	91,869
Lease liabilities	**2,329,435**	2,742,875
Deferred tax liabilities	**234**	1,112
	2,417,925	2,835,856
	3,268,015	3,631,517

The Company's statement of financial position was approved and authorised for issue by the board of directors on 25 March 2021 and is signed on its behalf by:

YUKI HABU
Director

ISEI NAKAGAWA
Director

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35. Statement of Financial Position of the Company (Continued)

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

	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2019	24,141	854,526	878,667
Loss for the year	—	(80,944)	(80,944)
Fair value loss on investments in equity instruments at FVTOCI	(2,947)	—	(2,947)
Total comprehensive expense for the year	(2,947)	(80,944)	(83,891)
Dividends recognised as distribution	—	(114,400)	(114,400)
Unclaimed dividends forfeited	—	127	127
At 31 December 2019	**21,194**	**659,309**	**680,503**
Profit for the year	**—**	**84,124**	**84,124**
Fair value loss on investments in equity instruments at FVTOCI	**(3,750)**	**—**	**(3,750)**
Total comprehensive (expense) income for the year	**(3,750)**	**84,124**	**80,374**
Dividends recognised as distribution	**—**	**(26,000)**	**(26,000)**
Unclaimed dividends forfeited	**—**	**55**	**55**
At 31 December 2020	**17,444**	**717,488**	**734,932**

36. Capital Commitments

	2020 HK$'000	2019 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**20,047**	9,302

37. Operating Leasing Arrangements

The Group as lessor

All of the properties held by the Group for rental purposes have committed licensees for the next one to thirteen years (2019: next one to fourteen years).

Undiscounted lease payments receivable on leases are as follows:

	2020 HK$'000	2019 HK$'000
Within one year	**281,903**	269,727
In the second year	**173,490**	159,330
In the third year	**98,531**	93,728
In the fourth year	**43,191**	50,732
In the fifth year	**20,762**	21,324
After five years	**36,210**	35,711
	654,087	630,552

The leases are negotiated for terms ranging from one to fifteen years (2019: one to fourteen years). In addition to the minimum lease payments, the Group is entitled to receive contingent rent based on a fixed percentage of turnover of the licensees in excess of the minimum lease payments as stated in the relevant rental agreements.

38. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$21,395,000 (2019: HK$18,881,000) 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$3,442,000 (2019: HK$3,688,000) charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK$53,794,000 (2019: HK$77,783,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

39. Related Party Transactions

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

Relationship	Nature of transaction	2020 HK$'000	2019 HK$'000
Fellow subsidiaries	Commission for credit facilities provided to customers	**13,357**	12,179
	Franchise fee	**205**	415
	Trademark fee	**12,309**	9,208
	Other expense	**22,977**	23,810
	Other income	**13,467**	9,195
	Purchase of goods and property, plant and equipment	**2,112**	6,006
	Interest on lease liabilities	**5,017**	6,465
	Repayment of lease liabilities	**13,815**	10,518
	Management fees and utilities expenses	**16,019**	18,110
	Rental income	**18,056**	19,479
	Sales of coupons	**8,522**	9,110
	Service fee expense	**56,059**	48,930
Ultimate holding company	Royalty expenses	**27,501**	26,491
Non-controlling shareholder of the subsidiary*	Advertising expenses	**1,726**	2,185
	Interest on lease liabilities	**13,425**	16,715
	Repayment of lease liabilities	**32,173**	29,547
	Other income	**36**	7,088
	Management fees and utilities expenses	**13,218**	14,107

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

	2020 **HK$'000**	2019 HK$'000
Amounts due from fellow subsidiaries (included in other receivables, prepayments and deposits)	**5,103**	3,913
Amounts due to fellow subsidiaries (included in lease liabilities)	**76,194**	87,839
Amount due from a non-controlling shareholder of the subsidiary (included in other receivables, prepayments and deposits)	**4,562**	2,727
Amount due to a non-controlling shareholder of the subsidiary (included in lease liabilities)	**189,804**	206,037

Amount due from 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 optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes lease liabilities disclosed in note 32, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits 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 2020

41. Financial Instruments

(a) Categories of financial instruments

	2020 HK$'000	2019 HK$'000
Financial assets at amortised cost	**2,412,541**	2,160,956
Equity instruments at FVTOCI	**19,848**	23,598
Financial liabilities at amortised cost	**1,736,055**	1,836,013
Lease liabilities	**4,870,646**	4,800,700

(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 2020.

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 at the reporting date is as follows:

	Assets		Liabilities	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
HKD	**662**	171	**—**	—
USD	**10,043**	183,088	**7,569**	8,628
JPY	**29,363**	6,665	**19,304**	18,488
RMB	**64,396**	45,142	**—**	—

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 profit/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.

	2020		2019	
	Increase (decrease) in foreign exchange rates %	**Increase (decrease) in profit after tax HK$'000**	Increase (decrease) in foreign exchange rates %	(Increase) decrease in loss after tax HK$'000
JPY	**10%**	**840**	10%	(987)
	(10%)	**(840)**	(10%)	987
RMB	**10%**	**5,377**	10%	3,769
	(10%)	**(5,377)**	(10%)	(3,769)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2019.

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

(d) Interest rate risk management

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

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

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

Interest rate sensitivity

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

(e) Other price risk

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

Equity price sensitivity

The sensitivity analysis below have been determined based on the exposure to equity price risks in respect of equity instruments at FVTOCI at the reporting date. If the prices of the equity instruments at FVTOCI had been 5% (2019: 5%) higher/lower, while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$992,000 (2019: HK$1,180,000) 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 2020

41. Financial Instruments (Continued)

(f) Credit risk and impairment assessment

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

Trade receivables

Retail sales are mainly on a cash basis, either in cash, debit card, credit card or electronic payment methods. Where transactions are conducted other than on a cash basis, the Group practices stringent credit reviews. The Group performs impairment assessment using lifetime ECL individually for debtors with significant balance and collectively. The Group considered the credit risk on trade receivables is limited because counterparties are banks/financial institutions with high external credit ratings assigned by international credit rating agencies. Therefore, the allowance for credit risk of trade receivables was immaterial and no provision was made.

Amounts due from fellow subsidiaries

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

Other receivables and rental deposits

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

Pledged bank deposits, time deposits and bank balances

The credit risk on pledged bank deposits, time deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for pledged bank deposits 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 2020

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

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
2020							
Lease liabilities	**3.71%–7.89%**	**487,131**	**498,356**	**3,987,955**	**1,495,107**	**6,468,549**	**4,870,646**
Non-interest bearing financial liabilities	**–**	**1,665,012**	**13,937**	**56,676**	**430**	**1,736,055**	**1,736,055**
		2,152,143	**512,293**	**4,044,631**	**1,495,537**	**8,204,604**	**6,606,701**
2019							
Lease liabilities	3.80%–7.89%	476,378	479,202	3,628,571	1,377,837	5,961,988	4,800,700
Non-interest bearing financial liabilities	–	1,774,252	17,641	43,343	777	1,836,013	1,836,013
		2,250,630	496,843	3,671,914	1,378,614	7,798,001	6,636,713

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	
	2020 **HK$'000**	2019 HK$'000
Equity instruments at FVTOCI		
Listed equity securities	**19,848**	23,598

There were no transfers between levels in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2019	426	4,938,605	4,939,031
Financing cash flows	(117,110)	(988,985)	(1,106,095)
Non-cash changes			
New leases entered/leases modified	–	565,450	565,450
Interest on lease liabilities	–	303,414	303,414
Dividends recognised as distribution	114,400	–	114,400
Dividend paid to a non-controlling shareholder	2,765	–	2,765
Unclaimed dividends forfeited	(127)	–	(127)
Exchange realignment	–	(17,784)	(17,784)
At 31 December 2019	**354**	**4,800,700**	**4,801,054**
Financing cash flows	**(26,004)**	**(961,845)**	**(987,849)**
Non-cash changes			
New leases entered/leases modified	**–**	**546,603**	**546,603**
Interest on lease liabilities	**–**	**292,755**	**292,755**
Dividends recognised as distribution	**26,000**	**–**	**26,000**
Unclaimed dividends forfeited	**(55)**	**–**	**(55)**
Exchange realignment	**–**	**192,433**	**192,433**
At 31 December 2020	**295**	**4,870,646**	**4,870,941**

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
				2020 & 2019	2020 & 2019	2020 & 2019	2020 & 2019	**2020**	2019	**2020**	2019	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB228,690,000 (2019: RMB228,690,000)	65%	66%	35%	34%	**6,570**	(261)	**146,976**	132,752	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2019: RMB212,800,000)	100%	100%	–	–	**–**	–	**–**	–	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2019: 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 2020

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.

	2020 **HK$'000**	2019 HK$'000
Current assets	**1,294,000**	1,205,465
Non-current assets	**1,277,367**	1,292,765
Current liabilities	**1,255,827**	1,341,913
Non-current liabilities	**888,073**	769,831
Equity attributable to owners of the Company	**280,491**	253,734
Non-controlling interest	**146,976**	132,752
Revenue	**4,038,432**	4,135,168
Expenses	**4,019,661**	4,135,914
Profit (loss) for the year	**18,771**	(746)
Profit (loss) attributable to owners of the Company	**12,201**	(485)
Profit (loss) attributable to a non-controlling interest	**6,570**	(261)
Profit (loss) for the year	**18,771**	(746)
Other comprehensive income (expense) attributable to owners of the Company	**14,214**	(2,522)
Other comprehensive income (expense) attributable to a non-controlling interest	**7,654**	(1,358)
Other comprehensive income (expense) for the year	**21,868**	(3,880)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

43. Particulars of Subsidiaries of the Company (Continued)

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

	Year ended	
	2020	2019
	HK$'000	HK$'000
Total comprehensive income (expense) attributable to owners of the Company	**26,415**	(3,007)
Total comprehensive income (expense) attributable to a non-controlling interest	**14,224**	(1,619)
Total comprehensive income (expense) for the year	**40,639**	(4,626)
Dividends paid to a non-controlling interest	**–**	(2,765)
Net cash inflow from operating activities	**295,644**	391,462
Net cash outflow from investing activities	**(50,276)**	(212,492)
Net cash outflow from financing activities	**(216,997)**	(225,413)
Net cash inflow (outflow)	**28,371**	(46,443)

FINANCIAL SUMMARY

The Group

	For the year ended 31 December				
	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000	**2020** **HK$'000**
RESULTS					
Revenue	9,036,609	9,665,539	9,675,891	9,493,774	**9,961,893**
Loss before tax	(10,606)	(63,207)	(23,259)	(167,955)	**(20,249)**
Income tax expense	(4,407)	(11,015)	(19,718)	(21,032)	**(9,987)**
Loss for the year	(15,013)	(74,222)	(42,977)	(188,987)	**(30,236)**

	At 31 December				
	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000	**2020** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	4,855,365	4,842,717	4,387,746	8,377,450	**8,343,744**
Total liabilities	(2,948,145)	(3,099,346)	(2,809,563)	(7,471,166)	**(7,494,112)**
	1,907,220	1,743,371	1,578,183	906,284	**849,632**
Equity attributable to:					
Owners of the Company	1,753,708	1,605,701	1,441,047	773,532	**702,656**
Non-controlling interest	153,512	137,670	137,136	132,752	**146,976**
	1,907,220	1,743,371	1,578,183	906,284	**849,632**