

LETTER FROM THE MANAGING DIRECTOR



Dear Shareholders,

We entered into 2022 with a sense of cautious optimism as we had just emerged from two years of lockdowns due to the COVID-19 pandemic. Despite market volatility and uncertainties, we remained disciplined in executing our strategic priorities.

MR. KEIJI ONO
Managing Director

Throughout the year, we recorded commendable performance, underpinned by our ability to strengthen our portfolio and accelerate existing initiatives to advance digital transformation and revamp underperforming businesses to meet the needs of our stakeholders. We implemented our digital transformation journey, setting a pathway that placed us in a position of strength. Through collective action, we successfully reshaped the future of the retail industry in Malaysia, pushing ahead to achieve our strategic goals.

OUR OPERATING ENVIRONMENT

In FY2022, countries worldwide focused on economic recovery with the opening of international borders. After a long period of movement restrictions, Malaysia transitioned into a period of endemic as business activities resumed and mobility increased as the population gradually returned to their workplace. As a result, the nation recorded a GDP of 8.7%, backed by strong domestic consumption and a low base in 2021.

While the economy continued to strengthen, demand outstripped supply, as prices of commodities increased, exacerbated by the Russia-Ukraine conflict, tight labour markets and supply chain disruptions. On the retail front, the industry experienced a rebound as the gradual relaxation of many COVID-19 SOPs throughout the year encouraged consumers to return to their normal shopping behaviours and patterns at physical stores. However, consumers remained cautious in their purchase decisions as they faced increases in the prices of raw goods and higher costs of living.

RETAIL

REVENUE

FY2022

RM3,525.6 million

FY2021: RM3,099.1 million

PROFIT

FY2022

RM224.2 million

FY2021: RM130.2 million

PROPERTY MANAGEMENT SERVICES

REVENUE

FY2022

RM615.5 million

FY2021: RM531.3 million

PROFIT

FY2022

RM218.8 million

FY2021: RM199.6 million

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FINANCIAL PERFORMANCE

Revenue and Profit Segment

For the year under review, the Company continued to demonstrate strong financial performance, recording a Profit Before Tax (PBT) of RM211.5 million, an increase of 61.4% from RM131.0 million in FY2021. Higher PBT was contributed by an increase in revenue which managed to offset the rise in operating costs. Total revenue stood at RM4,141.1 million, 14.1% higher as compared to RM3,630.4 million recorded in the preceding year.

The retail segment experienced a 13.8% increase in revenue, from RM3,099.1 million in FY2021 to RM3,525.6 million. This was due to improved Softline and Hardline sales, attributed to the reopening of national borders and a higher number of customers as they resumed outdoor activities and festive celebrations after two years of restricted movements. The improved performance was also a reflection of our personalisation strategy to better understand customer needs.

Meanwhile, property management services revenue increased by 15.8% to RM615.5 million in FY2022 from RM531.3 million in the preceding year, attributed to higher occupancy rate, higher sales commission and temporary sales rental received, following higher customer footfall at our malls.

Balance Sheet

AEON continued to remain cash positive, as our assets continued to surpass our liabilities. In terms of cash position, we registered an increase in liquidity to RM237.5 million from RM193.6 million in the preceding year. On the whole, liabilities were reduced by RM500.8 million as we lowered our borrowings and lease liabilities, adhering closely to scheduled lease payments.

Capital expenditure for FY2022 increased by 76.5% to RM118.4 million from RM67.1 million in FY2021 due to the opening of AEON Store in Putrajaya, major renovations carried out at AEON Alpha Angle and also investments made to strengthen our digitalisation efforts.

STRATEGIC PERFORMANCE REVIEW

As we navigated through the uncertainties of FY2022, we focused on executing the AEON Living Zone ecosystem, built on our Online-Merge-Offline (OMO) strategy and our New Retail Business model. A comprehensive and integrated digital ecosystem, it is built on three key philosophies - demand, personalisation and transparency - and driven by five strategic thrusts. Through this ecosystem, all our malls, supermarkets and department stores are placed on a shared platform, with our customers as its main focus.

In FY2022, we centralised efforts on enriching the lives of our customers by delivering added value and convenience. Leveraging our AEON Living Zone ecosystem, we introduced products, services and lifestyle-related solutions that remained rooted in community needs, as follows:

Priorities	Initiatives in 2022
Enhanced existing core business and enriched merchandising assortment	<ul style="list-style-type: none"> Created unique value via our supply chain by expanding our range and assortments of private brand products, namely TOPVALU, Inner Casual and Home Coordy.
Embraced transformation by providing digital infrastructure for AEON Living Zone	<ul style="list-style-type: none"> Completed the roll-out of self-check-out terminals at all our stores. Accelerated technology upgrades in the following areas: <ul style="list-style-type: none"> Introduced electronic billing and contract management for our business partners; Provided added value services in the e-commerce portals for tenants; and Introduced non-trade portals for business partners, suppliers and contractors.
Engaged and strengthened customer loyalty	<ul style="list-style-type: none"> Integrated and redesigned the iAEON App with new features, promotions and e-gift vouchers to attract and retain customers Conducted AEON's Members' Exclusive "A-Day" for 7 stores and malls in conjunction with AEON's 38th Anniversary Celebration. Continuously offered attractive redemption products under AEON's Star Rewards programme.
Accelerated sustainability initiatives in green energy	<ul style="list-style-type: none"> Completed the installation of photovoltaic renewable solar energy panels on the rooftops of AEON Taman Maluri and AEON Alpha Angle. Implemented AEON's Zero Plastic Bags Campaign, under the #AEONResponsible banner to eliminate all single-use plastic bags at our cashiers and checkout counters at all AEON Stores, AEON MaxValu, AEON Wellness, DAISO, AEON Pet, Komai-so stores and outlets nationwide.

We continued to leverage our 7 Customer Personas, which used market research and consumer behaviour concepts to create accurate customer profiles. Ranging from Forgotten Heroes to the current Woke or Truth Generation, we were able to customise our offerings, based on these personas and demographic profiles of the respective areas.

Prioritising all stakeholders' needs and minimising our environmental footprint, we strengthened our retail strategy, ensuring that it remained relevant to present-day market dynamics, customer consumption patterns and behaviours.

LETTER FROM THE MANAGING DIRECTOR

RETAIL SEGMENT

Our retail strategy continues to deliver value and potential, further validating the success of our gradual transformation since it began at the end of FY2020. Over the last two years, we have successfully repositioned and simplified our portfolio, creating clear customer segmentation strategies to improve customer experience.

Nevertheless, we have realised that the accelerated pace of change experienced over the last few years will continue. We worked hard to build enduring relationships with our customers as well as broaden our suite of products and services. For AEON, it was not only about meeting their needs but creating enriching experiences that build loyalty and trust over the long term.

Deepening Customer Relationships

We understand that our customers are always expecting more from us. Guided by our 'Customer First' philosophy and the 7 Customer Personas, we conducted continuous research on the respective market segments, proactively engaging with customers to understand their post-pandemic consumption behaviour and concerns.

Cognisant of the increased cost of living and its impact on Malaysians, we proactively managed our pricing and supply chain strategies to offer added value to our customers. We worked closely with our suppliers to reduce this impact on our customers by launching 'Jimat Poket'. Through this campaign, we provided price protection and price guarantee against inflation of more than 500 essential items, whereby 45% of these items consisted of the most sought-after daily necessities by AEON customers. The campaign was conducted over a period of 100 days in conjunction with National Day and Malaysia Day in August and September 2022, respectively. Through this programme, we successfully managed to preserve the price of products and help our customers adapt to the market changes.

To create enduring value, deepen customer engagement and strengthen customer loyalty, we rolled out various brand innovations and promotions to targeted customer segments, including strategic collaborations with famous fashion designers, chefs and well-known beauty brands and homegrown sportswear brand.

During the year under review, we experienced higher sales from the retail segment as compared to FY2021, with an average basket size of RM70. This was mainly due to improved sales after the resumption of economic activities in April 2022. Meanwhile, down south in Johor, the return of shoppers from Singapore contributed up to 40% in sales for FY2022.

Besides conducting the AEON Members' only "A-Day" at 7 stores and malls, we extended our Star Rewards Programme from 17 March 2022 to 31 October 2022, offering attractive items such as Neoflam and Carl Schmidt Sohn glassware via our redemption catalogue. We also opened another specialty store, DAISO in Gurney Plaza, Penang.

Looking Ahead

Without a doubt, the retail industry will go through its fair share of challenges in FY2023. Cognisant of this, we remain committed to enhancing our ecosystem and driving our digital transformation, leveraging on our AEON Living Zone strategy, to create meaningful value for our stakeholders.

As our AEON Living Zone strategy has resonated well with customers and business partners, plans have been established to rejuvenate another two malls in FY2023. We recently opened AEON Putrajaya, which is our 35th store that caters to the needs of the community in the surrounding areas in Putrajaya and the southern region of Selangor.

With the expected changes in consumer shopping behaviour and purchasing patterns, we will make concerted efforts to deliver unique and value-driven offerings across our operations. We will do this by enriching our product portfolio and merchandising. Additionally, we will also identify new opportunities to manage pricing and supply chain strategies, working closely with our business partners, to help customers manage their expenses.

On the customer engagement front, we will continue to advance our digital transformation journey, by strengthening the myAEON2go platform as well as introducing innovations to enhance the efficiency levels of our back-office and store operations. We will also increase the value of our existing assets, particularly the General Merchandise Store (GMS) business by providing differentiation in terms of shopping experience and product development. We will also move forward on our plans to conduct renovations and rejuvenate our older stores.

PROPERTY MANAGEMENT SERVICES

Throughout FY2022, we continued to partner and collaborate with our tenant partners on various programmes and initiatives via thematic marketing initiatives to not only improve growth prospects for our tenants but also unlock value from customer demand, customer experience and mitigate supply chain challenges.

With the increase in consumers visiting our malls, our revenue from property management services increased by 15.9% as compared to FY2021 contributed by higher sales commission, temporary space rental and carpark income. Tenant sales also increased by 78% in FY2022 compared to FY2021 due to higher sales coming from specialty stores and accessories segments. Meanwhile, tenant renewals increased to 90%, as compared to 85% in FY2021, following the strategy to restructure tenancy income whereby we reduced fixed rental but imposed higher commission-based fees. We did this as part of our efforts to assist our tenant partners in managing their costs in order for them to sustain business performance. We also saw improvements in our occupancy rate, achieving 91.4% occupancy as compared to 88.3% in FY2021. We also successfully diversified our tenant mix by securing new tenants across the F&B, cosmetics and apparel segments such as Taco Bell, Sushi Zanmai, Lush, Krispy Kreme and Lovisa, to name a few.

LETTER FROM THE MANAGING DIRECTOR



DRIVING DIGITALISATION

When we began our digital transformation journey, we were clear that it was not just about connectivity or leveraging data analytics. Instead, it was about reshaping every aspect of our business and creating a positive impact on our stakeholders, with customers as our focus. This, we believe, will improve customer experience, enhance operational efficiency and effectiveness as well as drive innovation. In short, it was an existential imperative that would determine our future growth, given the changing environment.

In FY2022, we accelerated our digital transformation to ensure we were constantly connected to customers' demands. Embracing our New Retail Business model and OMO strategy, we completed the renovation of AEON Alpha Angle which is built on the IDEA concept emphasising the holistic approach of the AEON Living Zone. This open loop ecosystem not only improved customers' shopping experience but also encouraged more local businesses to be part of AEON's Living Zone.

One of the key initiatives in FY2022 in driving digitalisation across AEON was the introduction of self-checkout (SCO) terminals at all our stores which were widely utilised by customers. These were introduced for the ease of customers as they reduced waiting time at the cashier terminals and improved overall efficiency.

Recognising that customers today expect the same experience, be it at our physical stores or online, we consolidated various service channels such as the AEON Personal Shopper, AEON Members Plus Loyalty programme and myAEON2go online platform onto the iAEON app, an inclusive community-friendly tool that also helped our customers and business partners gain access to our ecosystem. With this integration, customers were able to enjoy uninterrupted cross-channel experience on a single app as it helped simplify their purchase journey. It also accelerated customer acquisition and enhanced customer experience.

As AEON positions itself for future growth, we have not forgotten our responsibility to our tenants and business partners. We launched the new supplier portal to improve data analytics while our tenants were provided access to e-billing as well as e-contract management system. These were introduced for suppliers and tenants in order to streamline workflow and improve overall visibility as this helps in making more informed decisions. These incremental changes will also increase overall productivity and ensure better cost management. In addition, we continued to utilise entrepreneurial data-driven technology to encourage our partners and tenants to take on a more disciplined approach in their execution. We will continue to serve the needs of our partners across our value chain with the introduction of more end-to-end solutions to improve synergies and operational efficiency, thus unlocking the potential of our AEON Living Zone strategy.

LETTER FROM THE MANAGING DIRECTOR



COMMITTED TO SUSTAINABLE PRACTICES

Central to our growth strategy is our ability to realise our sustainability commitments, given rising investor and stakeholder expectations. Over the last few years, we have continuously fostered ESG integration across the business to protect enterprise value and improve ESG risk management. Our ability to demonstrate strong ESG practices enabled AEON to be included in the FTSE4Good Bursa Malaysia (F4GBM) Index and the FTSE4Good Bursa Malaysia Shariah (F4GBMS) Index in FY2022.

In FY2022, we scaled up our sustainability efforts by reviewing our past programmes, identifying gaps, and aligning ourselves to local and global goals. This led to the establishment of the AEON Sustainability Charter (ASC), which is essentially our blueprint that outlines our key stakeholders, principles and key initiatives. The ASC consists of five core pillars which correlate to the needs of our key stakeholders and are aligned with the specific UN SDGs. The five core pillars are Environmentally Focused, Responsible Employment, Efficiency and Integrity, Sustainable Economics and Dynamic CX (Customer Experience).

We also focused on realising our decarbonisation commitments, which is essential to achieve carbon neutral by 2040 with the installation of solar panel photovoltaic (PV) facilities at AEON Taman Maluri and AEON Alpha Angle. Our goal is to install solar panels at all our owned malls by end of FY2023.

Recognising the harmful impact of single-use plastics on nature and biodiversity, we introduced the Zero Plastic Bag Campaign at all our stores since 1 January 2023. Through this campaign, we halted the sale of single-use plastic bags at our cashiers and checkout counters at all AEON Stores, AEON MaxValu, AEON Wellness, DAISO, AEON

Pet, Komai-so stores and outlets nationwide. This is aligned with one of the goals set out in the ASC which focuses on reducing waste and enhancing biodiversity conservation.

AEON became a member and participant of the United Nations Global Compact Malaysia and Brunei (UNGCMYB) in May 2022 as part of our goal to align strategies and operations with its Ten Principles, covering human rights, labour, environment and anti-corruption. It also allows us to expand our network and collaborate on initiatives that will advance our societal goals.

As we navigated through this challenging market environment, there have been increasing calls for greater action to help consumers and communities to manage the higher cost of living and rising prices. In light of present-day challenges, we empowered our community by supporting the Small and Medium Enterprises (SMEs) and conducting social activities in collaboration with sustainability experts, non-governmental organisations, including local Government and authorities.

Through AEON Sayap Bagimu, we worked through Malaysia AEON Foundation, in collaboration with Yayasan Didik Negara, to implement the Smart Classroom Project in 40 schools nationwide. These schools, with at least 50% population of B40 students were selected to receive smartboard, basic classroom infrastructure set up and repairs to improve teaching and learning digitally.

As a testament to our efforts, AEON received the Sustainability Initiative of the Year award at the Retail Asia Awards 2022. We were also awarded the Partnership for the Goals Recognition at the Sustainability Performance Awards 2022 organised by the UNGCMYB.

LETTER FROM THE MANAGING DIRECTOR

OUTLOOK AND PROSPECTS

Malaysia's economic growth is expected to moderate to between 4% to 5% in 2023, due to slower global demand and elevated inflation pressures. Similarly, the retail industry will not be spared from the expected economic slowdown. While we expect to witness positive retail momentum as consumers return to malls and shopping centres, we are also cautious as consumer spending will be anchored on the stability of market conditions, improvements in overall income levels and continued policy support by the government.

Laying our foundation for the future, we remain resolute in our efforts to fortify our core business and at the same time, forge ahead on our transformation. In 2023, digitalisation, innovation and sustainability will continue to be our game changers as we move towards realising sustainable digital transformation. We will collectively accelerate and scale up our New Retail model to ensure it is more demand-based and attuned to present market dynamics, customer consumption behaviours and patterns.

In building a customer-centric mindset, we aim to improve customer experience whenever they step into our malls and stores. Towards this end, we will focus on the rejuvenation of two malls in 2023. The maintenance at these malls and stores will be enhanced to ensure they are equipped with facilities that reflect customers' preference. We will also pay greater attention to improving the operational aspects of all our malls and stores where we will adopt more energy efficient measures, enhance waste and water management as well as increase renewable energy consumption, where possible. This reflects our detailed approach in ensuring customers' ease and comfort in the spaces we create.

We will also raise the bar by increasing the value of our assets, differentiating sales areas under our private brands covering groceries and food, household items, health and wellness and apparel for adults and kids. At the same time, we will introduce experiential features that not only relate to consumers but also meet their needs.

Sustainability has been and will continue to be an integral component in our strategy and we believe we have what it takes to drive collective impact in realising our sustainability agenda. Towards this end, we will continue to promote sustainable management and introduce new green-focused initiatives which will provide a sustainable and conducive shopping experience to customers.

ACKNOWLEDGEMENTS

In the last 12 months, we have set the stage to take AEON to the next level, creating meaningful progress while delivering strong growth performance in a responsible, sustainable manner. While we will continue to face headwinds, I believe that we will be able to rise above these challenges, through collective effort. We have built a strong circle of trust among our stakeholders and we remain grateful for their continuous support.

On behalf of the Company, I would like to extend our sincere gratitude to our Board for your continued wisdom and counsel. To our formidable AEON People, you have demonstrated sheer perseverance and outstanding performance in realising our strategic priorities, and for this, thank you. We would also like to record our appreciation to our ecosystem partners - our tenants partners, suppliers, and business partners for your trust and loyalty.

Moving into 2023, AEON remains committed to maintaining strong momentum in delivering the best customer experience, accelerating growth and creating stakeholder value as we take steps to take our growth to the next level and drive meaningful progress.

Thank you.

Mr. Keiji Ono
Managing Director