

MANAGEMENT DISCUSSION AND ANALYSIS



SEGMENTAL REVENUE

85%

15%



Retailing

RM3.445 billion

FY2019: RM3.832 billion



Property
Management
Services

RM606.6 million

FY2019: RM706.6 million

Dear Shareholders,

OVERVIEW OF BUSINESS AND OPERATIONS

Introduction

Incorporated on 15 September 1984, AEON CO. (M) BHD. (“AEON” or the “Company”) is a leading retailer in Malaysia and is regarded as one of the country’s top Departmental Store for ease of Malaysian contextualisation, supermarkets and mall retail brands.

AEON is one of Malaysia’s largest mall operators with a total net lettable area (“NLA”) of 1.6 million square metres.

Since its inception, AEON has progressively grown to become a household retail name with affordably priced, quality retail products and services as well as food and beverage.

AEON is part of AEON Group of Companies and it is 51.68% owned by Japan incorporated holding company, AEON Co., Ltd. The AEON Group of Companies is an integrated Japanese retailer with over 300 consolidated subsidiaries and affiliated companies. It has an active and growing presence across Japan, South East Asia and China.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Model And Operations

The Company's principal business operations comprise the following:

Operation of a retail chain of departmental stores, supermarkets and pharmacies, which sell a broad range of merchandise from clothing, food, household products, pharmaceutical products and other merchandise.

In addition to these, AEON also operates MaxValu standalone supermarkets and health and beauty stores. AEON is also the franchisee for Daiso flat price shops. The MaxValu Prime or AEON neighbourhood supermarkets, on an average scale range of 1,500 to 3,100 square metres each, provides convenient shopping for residents in the vicinity of where the outlet is located.

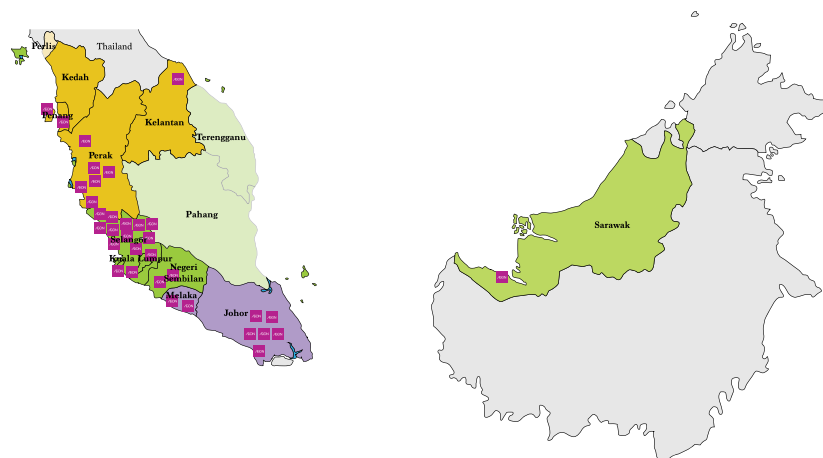
The business model involves operations of an anchor departmental store cum supermarket that is complemented by shopping mall operations and the aforementioned specialty businesses i.e. pharmacies, flat price shops and others. In some instances, the Company operates standalone neighbourhood supermarkets and also departmental stores cum supermarkets as an anchor tenant in third party malls.



Following is AEON's store composition as at 31 December 2020:

AEON's 5 years mall trend as at 31 December					
Year	2016	2017	2018	2019	2020
Existing malls (beginning of the year)	24	26	26	27	28
Opened during the year	2	1	1	1	-
Closed during the year	-	(1)	-	-	-
Number of malls as at year end	26	26	27	28	28
- Number of malls fully owned (including land)	14	14	14	14	14
- Number of malls fully leased (including land)	9	9	10	10	10
- Number of malls only land is leased (but building is owned)	3	3	3	4	4

Location of Operations



In essence, AEON serves as a one-stop retail destination for urban and suburban households to meet their daily living needs. Beyond AEON's own merchandise, its stores and malls also provide retail space for other retail brands to provide a wide range of goods, services and entertainment, thus delivering a complete lifestyle value proposition for shoppers.

AEON aims to provide an overall engaging shopping experience amidst a convenient and conducive shopping environment, supported by a variety of tenants, good facilities and services.

The Company also provides property management services for its malls. Under its Property Management Services business model, AEON leases its mall space to other retail brands and generates monthly rentals. It also undertakes facility management and related services. The Company's Property Management Services segment also derives revenues from temporary rental of space for events, seasonal promotions, revenues from car parks within its property assets and more.

PURPOSE AND PHILOSOPHIES

AEON's principles for its business operations and organisational culture is centred on delivering sustainability to its stakeholders by focusing on three business purpose of 3Ps - People, Planet and Peace.

In realising this aspiration, AEON is further guided by six SDGs that empower AEON to create both financial and non-financial values, which are realised through three business philosophies of demand chain business, sniping and personalisation, and transparency in stakeholder communications.

In the spirit of the name AEON, which means eternity in Latin, the goal is to work together endlessly with customers, suppliers, business partners, shareholders and the community to create a future of limitless promises. All this is encapsulated in our business approaches of "Agile, Genba and Entrepreneurial".

For further information, please refer to the Sustainability Statement section of this annual report.

OPERATIONAL REVIEW

FY2020 had begun on a positive note for Malaysia with the first two months of the year recording positive gross domestic product ("GDP") growth. However, the unprecedented, global COVID-19 pandemic begun to effect the country, culminating with the implementation of the Movement Control Order ("MCO") on 18 March 2020.

The country's GDP growth contracted by 5.6%. The retail sector contracted by a significant 15.8%, much higher than the initially anticipated 9.3%. The

cumulative effects of the MCO, loss of jobs and incomes and the heightened fear among consumers to patronise public places, especially shopping malls and supermarkets, had impacted retail sales.

However, FY2020, despite its many adversities also provided various catalytic effects that accelerated the development of many positive industry trends. This included a significant shift in retail consumption patterns as consumers increasingly adopted digital mediums for their retail needs.

Retailers, in keeping up with consumers, have also moved into the digital marketplace. This includes small and medium sized retail businesses, looking to establish an online brand presence and to remain relevant amidst a dynamic and fast-changing landscape.

The rapidly evolving scenario presented AEON with new and exciting opportunities for business growth. Tapping on technology, AEON has responded with speed and agility to launch its New Retail Model, which comprises a complete end-to-end customer journey that includes both offline and online shopping.

In addition, AEON has capitalised on the operating scenario in FY2020 to seek opportunities to rationalise its organisational structure and yield cost and operational efficiencies. The new normal of FY2020 presented an impetus for the Company to better understand customer demand, to target the right customer segments and develop more incisive customer insights towards better understanding consumption patterns and consumer behaviour.

Beyond commercial motivation, our strategic response was also driven by an innate desire to help consumers during a most difficult period for many, and to close the gaps within the present retail model.

In essence, the pandemic period has accelerated AEON's various strategic initiatives to improve cost efficiencies, optimise operational productivity and to grow its consumer reach via digitalisation and technology.

The various efforts taken have enabled the emergence of a more competitive, agile, robust and more consumer attuned AEON. The improvements made in FY2020 will place the Group on a stronger stead, which will ultimately translate into sustainable business and operational performance going forward.

Segmental Revenue And Earnings Analysis

	Retailing		Property Management Services		Total	
	FY2020 (RM'000)	FY2019 (RM'000)	FY2020 (RM'000)	FY2019 (RM'000)	FY2020 (RM'000)	FY2019 (RM'000)
Revenue	3,444,661	3,832,247	606,641	706,637	4,051,302	4,538,884
Segmental Profit	77,863	114,616	229,620	268,799	307,483	383,415

MANAGEMENT DISCUSSION AND ANALYSIS



Revenue

For financial year ended 31 December 2020 (“FY2020”), AEON posted revenue of RM4.051 billion, 10.8% lower compared to the previous financial year’s RM4.539 billion. Company topline performance was lower, attributed to reduced income particularly from the retail business segment, which saw turnover decline by 10.1% year-on-year to stand at RM3.445 billion for FY2020 (FY2019: RM3.832 billion).

The drop in retail revenues were attributed to the COVID-19 pandemic, which its disruptive effects on the global and local economy had ultimately trickled down to impact consumer spending power.

In FY2020, sales for hardline and softline products were lower by 20.8% and 37.4% respectively. Declining revenues for the retail business segment were partially offset by a slight increase of 4.1% in revenues generated from AEON’s foodline.

As mentioned earlier, consumers’ ability and appetite for goods and services were inhibited by decreasing incomes and a general fear or concern of patronising shopping malls and retail centres, as well as a general apprehension of future prospects.

Many consumers chose to defer large-ticket purchases given the economic scenario in FY2020. In particular, sales of household and furnishing items were deferred or cancelled.

The above mentioned as well as other factors cumulatively led to decreased retail spending across the entire industry, with almost all retail players experiencing a decline in topline performance.

Revenues and earnings were also impacted by the restrictions on departmental store and specialty stores, which were not allowed to operate for almost two months during the MCO period beginning from mid-March to early May.

Though the MCO was replaced with the less stringent Conditional Movement Control Order (“CMCO”) and subsequently Recovery Movement Control Order (“RMCO”) in June 2020, retail expenditure remained dampened for the rest of the financial year.

Retail sales improved in the third quarter of the year, only to come again under downward pressure with the reimplementation of CMCO and thereafter, MCO 2.0 in January 2021. This was contrary to the usual strong retail sales performance customarily seen every year due to year-end

festivities that also tie in with year-end sales promotions.

Revenue – Property Management Services

AEON’s Property Management Services segment registered revenue of RM606.6 million, 14.2% lower year-on-year (FY2019: RM706.6 million). The revenue decrease was attributed to lower occupancy rates as tenants sought for non-renewal or early termination of tenancy agreements due the aforementioned COVID-19 pandemic.

With less shoppers frequenting malls and supermarkets, rental commission receivable and car park income was lower in FY2020. Income from temporary space rental was also lower due to the lack of retail events and activities held during the financial year.

This was largely due to the implementation of MCO, which prohibited such activities. Though restrictions were eased with the transition to CMCO and consequently RMCO, the lack of consumers patronising malls served to deinceivise retail brands and events companies from holding experiential events and promotions.

Profitability

On the back of lower revenues, AEON posted operating profit of RM259.3 million, 27.7% lower than the preceding financial year’s RM358.7 million.

Profit before tax stood at RM101.8 million, 48.3% lower year-on-year (FY2019: RM196.9 million), while profit after tax for FY2020 stood at RM41.4 million (FY2019: 109.3 million).

Impacts to the profitability were partially offset by continued efforts to rebase operating, financial and other costs. These included migration to a

shared service platform to consolidate back-office operations across all AEON Malaysia retail as well as consolidation of trade and non-trade procurement.

In total, operating expenses (“OPEX”) decreased in FY2020. The decrease was attributed to AEON’s cost agile structure, restructuring of its marketing activities and a decline in business development and operational activities undertaken in FY2020.

Retail Business earnings declined by 32.1% to reach RM77.9 million (before taxation and interest and other expenses). On the back of reduced rental collection, rental commission receivable and car park income, profits for AEON’s Property Management Services segment was lower by 14.6%, year-on-year at RM229.6 million.

The Company’s past five years performance, financial position and financial indicators are shown on page 09 of this annual report.

BALANCE SHEET

Due to COVID-19, the Company has adopted a wide range of measures to mitigate the effects of the pandemic on business and financial performance.

AEON’s balance sheet remains healthy with assets continuing to surpass liabilities. Despite a decrease in liquidity, AEON’s cash position remains at sufficient levels, at RM71.4 million to meet working capital requirements. Borrowings continue to be addressed and the Company has no new gearing or debt other than those required to meet working capital requirements.

The aforementioned decrease in liquidity is due to the cumulative effect of an increase in receivables coupled with continued payouts to suppliers and financiers. AEON has continued to meet its financial obligations and

retains a robust financial position to do so going forward.

The increase in receivables from debtors is due to accrual of debts arising from rentals owed by tenants to the Group. In FY2020, among the assistance granted to tenants included deferment of rental payments, which contributed to an increase in receivables.

Where possible, Capital Expenditure (“CAPEX”) has been deferred or cancelled and with that, CAPEX for FY2020 decreased by 83.1% to RM46.4 million (FY2019: RM274.2 million). This included deferred investments on new physical stores. Such investments will be reviewed going into FY2021.

CAPEX has been redirected towards refining and enhancing AEON’s New Retail Model, into the Company’s digitalisation journey and in developing MaxValu stores.

RETAIL SEGMENT

Personalisation And Demand Chain

Management has been at the forefront of driving improvements across AEON. These comprise of both incremental and transformation changes to the business model, value chain and other notable aspects of AEON’s operations.

Within the conventional retail space, AEON looked to capture changing consumer demand as more consumers chose to stay at home rather than to patronise retail malls. With this, demand patterns changed and opportunities in new categories emerged.

AEON’s Personal Shopper Service was introduced to address the need of our customers for grocery shopping during the MCO. It provided customers with fast, efficient, safe and low-contact shopping. Starting with the elderlies and physically-challenged customers in mind, it was very well received and soon expanded to all categories of shoppers.

In FY2020 demand for frozen and dairy products grew significantly. AEON was agile in adjusting to the changes to tap new opportunities. For example, stores that were largely patronised by Malays were also strong. Management made swift changes to the product assortment across all retail malls and outlets to cater to these changes in consumption pattern and behaviour.

Delivering New Retail Experiences

In FY2020, AEON has embarked on Kaizen Mobile Intelligence (“Ka-MI”), which is the Company’s strategic approach to delivering an integrated, end-to-end retail value chain within a single revolutionary ecosystem.



MANAGEMENT DISCUSSION AND ANALYSIS

Ka-MI serves as the enabler towards realising AEON’s aforementioned aspirations of connecting the physical retail business (offline assets) with the fast growing marketplace of digital retail (online solutions) as well as connecting back-end supply chains and systems.

Leveraging on artificial intelligence (“AI”), machine learning and other innovative technologies, one of Ka-MI’s key objectives is the re-engineering of the existing backend systems within AEON to ensure these are geared towards supporting AEON’s new business models.

Through Ka-MI, AEON will bridge the human elements of retail such as consumer behaviour, spending patterns and other intangible factors with the technological aspects of the business such as systems and processes to ensure the Company can effectively target the right consumers with the right the products and at the most opportune moment.

The Company has introduced multiple business models via Ka-MI such as AEON to Customer (“A2C”), AEON to Business (“A2B”), AEON to Partner (“A2P”), AEON to Employee (“A2E”) and AEON Care.

In tandem with Ka-MI, AEON initiated various other digital initiatives in FY2020. The strategic tie-up with US-based Boxed to drive AEON’s expansion into New Retail Model offerings is the first step of many more planned strategic initiatives towards realising this objective.

The Boxed technology and platform will serve our customers and provide technological solutions for AEON’s New Retail Model. Among the many capabilities of the platform, we will be able to host AEON’s virtual mall to enable closer business partnering

relationships with tenants as part of the business ecosystem and ultimately, strengthen AEON’s digital retail reach, capabilities and offerings to entice customers.

AEON’s ultimate goal is to create a one-stop, seamless customer experience by tapping on our inherent strengths and infrastructure, and leveraging on the digital capabilities of Boxed and Ka-Mi.

In the future, all AEON services and offerings will be integrated with machine learning capabilities to predict consumer buying behaviour, recommend product selections, feed specific promotions and campaigns and customise the retail experience based on personal preferences and patterns.

This strengthens AEON’s value proposition as it can offer a complete offline to online retail ecosystem comprising products, sales channels, supply chain and logistics, as well as payment gateway options and finance and communication.

Digital Highlights And Initiatives

In FY2020, AEON launched AEON Marketplace, AEON Virtual Mall, AEON Fresh and AEON SG Cross Border and the MyAEON super app to cater to evolving consumer habits and to also provide enhanced customer service. The digital platforms effectively enable

a safer shopping experience, greater brand outreach, increased market expansion and facilitates job creation.

In essence, the aforementioned digital initiatives as well as others were rolled-out in tandem with the increased trend among consumers to transition from offline to online shopping platforms. These online platforms were created to tap the growing number of tech-savvy consumers, as well consumers who prefer digital, contactless shopping over physical shopping.

All digital platforms, while serving specific strategic purposes, are ultimately designed with the following end goal in mind: to offer customers seamless convenience and assurance of safety when purchasing from the comfort of their homes.

The use of these platforms also supports an enhanced shopping convenience as when combined with AEON’s delivery services, enables consumers to meet their consumption needs for a wide range of products from the convenience of their homes or any other location, anytime. They need not be hassled with travelling, parking and other concerns as goods are ordered online and delivered to their doorstep.

All the online shopping channels are supported by enhanced services such as AEON Rider and AEON Personal Shopper. The apps also allow for



products to be selected from the nearest AEON outlet to the customers' premises to ensure faster delivery. In encouraging the use of these apps, various, exclusive in-app promotions were developed. These offers were not applicable for in-store purchases.

One of the highlights in FY2020 was the soft launch of the MyAEON super app. The super app acts as the centralised platform that interconnects several different platforms together such as MyAEON Employees, MyAEON Tenant Portal, MyAEON Suppliers and others.

Beyond facilitating online purchases, the super app comes replete with an e-shopping list, parking locator, e-recipe book, an online marketplace, mall locations and a tenant directory.

Under the MyAEON super app, tenants were provided complimentary marketing and promotional space to showcase their products and services. In essence, in supporting tenants, AEON provided ample access to various brands to reach consumers via the super app.

Going further, in FY2020, AEON launched its virtual mall platform accessible via <https://myaeon.com.my/>. The Virtual Mall is anchored by the AEON brand and is complemented by various local and international brands/



tenants. The Mall provides consumers with a wide range of choices in retail products and services, which are all just a click away and easily available via the MyAEON super app.

The super app connects AEON to customers and vice versa, and also enables a wide range of retailers including local small medium enterprises ("SMEs") to gain access to consumers.

As such, the Virtual Mall supports suppliers, tenants and other business partners who typically may not have the digital infrastructure or capabilities to reach prospective consumers. Importantly, the mall helped to drive sales for AEON and its ecosystem or tenants and retailers. It provided

opportunities for suppliers and tenants to convert their inventory into cash and support sales and cashflow.

The Company also launched the AEON 626 Campaign at myaeon.com.my. Through this campaign, consumers have access to a large range of essential products, beauty, fashion, home decor, healthcare, footwear, electrical and digital items. The 626 platform houses all AEON retail brands, including Departmental Store, MaxValu Prime, Daiso, Wellness, and AEON BiG. The platform also houses AEON partners comprising AEON's ecosystem of tenants and suppliers.

AEON is looking into the foodcourt business model and with that, they have launched a pilot digital foodcourt at AEON BiG Wangsa Maju. The foodcourt revolves around a novelty concept where orders and payment transactions are fully digital enabled. This shortens queueing time and minimises physical contact towards ensuring improved social distancing. The concept has been a success and will be rolled out subsequently to more AEON stores going forward.

With the imposition of border closures, especially between Malaysia and Singapore, a new approach was



MANAGEMENT DISCUSSION AND ANALYSIS

necessary to bring our brand and products to consumers across the Causeway. Hence, the launch of AEON Cross Border Online.

Singapore customers accustomed to shopping at AEON malls and outlets in Johor only need to log on to <https://myaeon-sg.com/application> to browse and shop for items they desire. The platform is supported with a complete logistics and fulfilment process, which ensures purchases are shipped and delivered on time and in optimum condition to consumers.



PROPERTY MANAGEMENT SERVICES

Tenants/Businesses within AEON's ecosystem experienced difficulties with most experiencing a minimum 20% drop in revenues and some as high as 50%. Tenants were also facing a cash flow crunch which further exacerbated the situation.

In response, AEON implemented various measures to ensure the majority of its affected tenants could continue to operate. This enabled AEON to arrest declining occupancy rates across all AEON properties.

Among these measures included rental waivers and discounts, flexible payment schemes and other forms of financial and non-financial assistance. Assistance was provided on a case-by-case basis in accordance to criteria as determined by Management.

The Company has chosen to adopt a longer-term perspective – to adopt a more sustainable and strategic approach based on the proven track record of its many tenants who have been excellent paymasters and attractive customer brands that have been effective in driving footfall at AEON's malls.

However, beyond just providing financial assistance, AEON has extended its online platforms to tenants; enabling them to participate in AEON's virtual mall.



Essentially, the virtual mall enables suppliers, tenants and other business partners who are not equipped with the right digital capacity and capability to be part of the AEON Ecosystem.

Additional support was provided in the form of assisting tenants to improve operational efficiency via back-office support to expand their marketing reach and brand visibility and essentially to improve tenants' business models to be more sustainable.

In adopting these measures, AEON was able to retain many long-term tenants. In FY2020, the Company achieved an average occupancy rate of 83.8% (FY2019: 85.7%)*.

Other Highlights And Initiatives

Our adopted SDGs align financial and business performance to a triple bottom-line line approach to enhance value creation. It strengthens linkages between financial aspects of our operations with the aspirations of our stakeholders. It closes the gaps between business perspectives with the dynamics of our target market and the external operating environment.

* Annual Report FY2019 reported the occupancy rate of 90.7% based on the number of lots. In 2020, the Company changed the indicator to be based on occupied Nett Lettable Area (NLA).

The SDGs coupled with our business philosophies guide our key strategic pillars towards enabling a more integrated approach where environmental, social and governance (“ESG”) matters are given due recognition and oversight as with time, ESG matters continue to increase in terms of potential and actual impact to business and financial performance.

Driven by this philosophy, AEON in collaboration with several government agencies embarked on AEON Prihatin, a programme which provided opportunities to approximately 200 SMEs to operate at AEON malls to generate income.

AEON Prihatin is in line with the with the Government’s PENJANA (Pelan Jana Semula Ekonomi Negara) initiative. Seven AEON malls participated during the campaign period which ran from 27 June to 30 September 2020. These malls were AEON Mall Shah Alam, AEON Mall Nilai, AEON Mall Seremban 2, AEON Alpha Angle Shopping Centre, AEON Mall Rawang, AEON Mall Kota Bharu and AEON Taman Maluri Shopping Centre.

The campaign saw AEON providing floor space at the seven aforementioned malls for SMEs to open booths or stalls. The campaign garnered RM2.4 million in sales, despite its limited period.

Similarly, AEON collaborated with MARA to launch the MARA Entrepreneur Kiosk (*Warisan Hadirah*). This was a single store initiative undertaken at the AEON Bandaraya Melaka Store. The initiative provided local SMEs with opportunities to explore new business opportunities.

AEON’s highlight in supporting local brands and SME would be its

collaboration in local movie production, Mak Cun. The telemovie was aired on local, terrestrial TV channel, TV3. The programme was developed to showcase Malaysian made brands and products.

“Kempen Beli Barangan Malaysia” in collaboration with Ministry of Domestic Trade and Consumer Affairs with the objective to penetrate local products into the mainstream retail sector was introduced in July 2020 and it is still ongoing at all AEON outlets nationwide.

AWARDS AND ACCOLADES

In FY2020, AEON was awarded the Global Halal Excellence Awards 2020 for its continued efforts in providing Halal ready-to-eat food for customers and for complying with MS1500:2009.



Minister in the Prime Minister’s Department Datuk Seri Redzuan Yusof presenting the Global Halal Award to AEON Managing Director/Chief Executive Officer, Encik Shafie Shamsuddin.



AEON Managing Director/Chief Executive Officer, Encik Shafie Shamsuddin with the World Branding Awards trophy.

Being the recipient of this prestigious award further attests to AEON’s reputation as a credible company, who continues to provide consumers with the highest quality products.

Despite the many challenges faced in FY2020, AEON has continued to uphold its commitment to maintain benchmark standards as per regulatory requirements, especially for food quality and safety.

The Company is also honoured to have been acknowledged by the Inland Revenue Board (“IRB”) as one of best taxpayers in FY2020. This is the second consecutive year that AEON has been selected. AEON is proud to be playing our role in contributing to the development of the nation through its tax contributions.

Recently, AEON was selected to receive the World Branding Award in the Retailer-Departmental Stores category. The World Branding Awards are organised by the World Branding Forum, a global non-profit organisation dedicated to advancing branding standards.

CORPORATE AND BUSINESS OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

AEON was chosen from among 400 retail brands from 45 countries worldwide, a clear recognition of the Company's strong credibility as a trusted customer brand of choice. AEON was the only Malaysian brand to be selected in the Retailer-Departmental Stores category.



AEON being honoured as one of the country's Top Taxpayers in 2020 by the IRB.

COVID-19 PREVENTION MEASURES

The Management has been steadfast in developing and implementing government mandated SOPs to ensure a safe operating environment, across all AEON assets. The Company recognises its employees notably for having played a pivotal part through their strict discipline and adherence to SOP, which have enabled a high level of compliance.

Among measures implemented included physical distancing, employees rotation on a Team A and Team B basis, work-from-home arrangements for all employees with the exception of retail frontliners, frequent screening and testing of employees and regular disinfection and sanitisation exercises.

Face masks were provided to all employees as well as consumers across our malls, stores and outlets. Sanitisers were also made readily available.

While COVID-19 related costs did contribute to OPEX, Management remains steadfast in ensuring a safe retail and work environment for consumers and employees as well as other stakeholders. AEON will continue to adopt a safety-first approach well into FY2021 to provide employees and patrons with the required assurance so they may feel comfortable and confident in shopping with AEON.

Company's Business Continuity Plan ("BCP") and the Risk Register has been updated with the possibility of pandemics as a risk factor going forward.



Strategic Priorities And Future Orientation

In essence, AEON will continue to grow its New Retail ecosystem and navigate the various challenges faced by focussing on its five Key Strategic Pillars.

The Pillars enable AEON to transition successfully from its present business model towards a new Retail Model that is demand based and more attuned to present market dynamics and customer consumption patterns and behaviours.

In enhancing Engine 1.0, the focus would be on improving experiential offerings in malls and to expand our assortment. While the Company is indeed developing its digital presence and capabilities, it will continue to focus on its brick and mortar operations. Capital expenditure in FY2021 will be centred on building the Company's digital infrastructure as well as improving its malls and in-mall experiences for customers.

One of the key changes would be for AEON's mall operations to be more demand driven in meeting customers' changing preferences. In particular, the Company will look to increase its assortment and inventory of frozen, snacking and local products.

People remains a pivotal factor in AEON's future growth plans. Empowering the workforce to be digitally savvy and financially astute is essential in enabling employees to thrive amidst an evolving era where technology is becoming more ingrained within work processes and daily operations. Training will be supported by other aspects such as variable incentive pay to reward and

OUTLOOK AND PROSPECTS

Despite the continued effects of the COVID-19 pandemic on the global and domestic economy, AEON maintains a positive outlook on growth prospects for the nation's economy, the domestic retail sector and AEON.

The introduction of vaccines, the various government stimulus measures and other facilitating factors have restored a measure of confidence to both consumer and investor sentiments.

Economic growth in FY2021 is expected to revert to a positive trajectory, with early estimates indicating gross domestic product ("GDP") growth of 5.6% being a possibility. Consistent with a pick-up in economic performance, the retail sector is also expected to see improvement with conservative estimations of 4.1% growth for the full year.

Retail sector growth will be driven by expansion in consumption demand, underpinned by increased consumer confidence to consume a wide range of products and services. FY2021, notably in the second half of the year may see a strong momentum as consumers transform pent-up demand into actual propensity to transact.

Online shopping has seen increased consumer adoption in FY2020 across all consumer demographic groups. This trend is expected to gain further momentum in FY2021. This will necessitate that retailers also dovetail with consumers' changing consumption patterns.

The Government's various initiatives to stimulate the economy should deliver a strong multiplier effect. In addition, further efforts to revive retail expenditure is required. This includes supporting job creation, which will restore disposable incomes that will ultimately translate into higher consumer consumption.

MANAGEMENT DISCUSSION
AND ANALYSIS



motivate employees to deliver high-performance and to achieve Objective Key Results (“OKRs”).

The Board and Management remain passionate about continuing to cultivate a conducive organisational culture and work environment, especially for the younger generation of today, who shall be AEON’s leaders of tomorrow.

Technology, digitalisation and innovation will be gamechangers for AEON going forward. Engine 2.0 entails greater expansion into the high-potential e-commerce industry, and the further development of AEON’s digital marketplace. In addition, through its digitalisation journey, the Company will further explore how to create more opportunities for the gig economy, which is a fast-growing segment in today’s economic landscape.

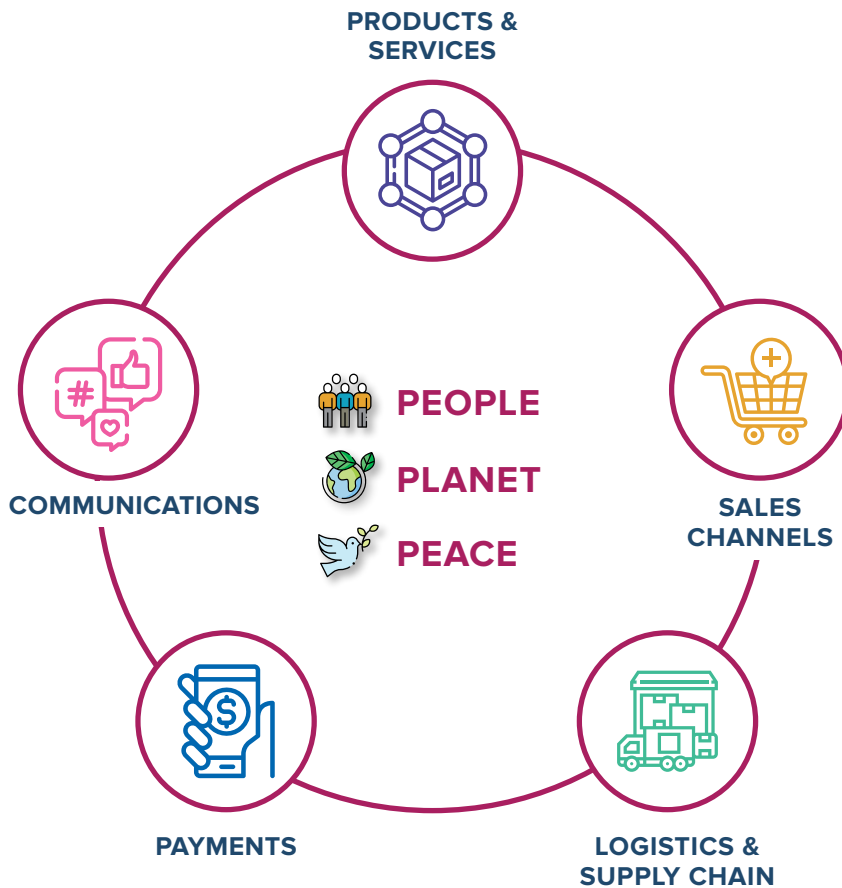
In supporting our technological ambitions, AEON will be more data

driven, where strategic decisions are made based on real-time information enabled through Big Data Analytics (“BDA”). BDA enables cost efficiencies and a more strategic approach in driving decision making. It will also support faster and more effective changes in product categories and assortment towards better meeting customer demand.

The advantages that digitalisation of the business model provides is not limited to customers, but will also include AEON’s supply chain, thus ensuring vendors, suppliers and tenants are included within the ecosystem. AEON shall adopt an inclusive approach as this is essential in ensuring that all stakeholders within AEON ecosystem are able to grow and progress together with the Company. The goal is for our ecosystem of partners to also derive the benefits of technology and to modernise their operations to remain relevant and competitive, which in turn yields greater value to AEON.

The impact of COVID-19, though severe, is with all likelihood to be a temporary blip to the global and domestic economy as well as consumer consumption patterns. With an effective vaccination programme at the fore of the government’s efforts to permanently resolve the pandemic issue, it is likely that going forward, consumer confidence will be significantly restored and with that, a dual consumption pattern comprising both conventional and online spending will emerge.

AEON continues to ready itself for this scenario, while implementing its strategies to remain relevant and robust during the pandemic period. On the back of hard-won efficiencies, improved productivity and new offerings based on digitalisation and innovation, the Board and Management are optimistic of an improved business and financial performance in FY2021.



DIVIDEND

On 24 June 2020, an ordinary dividend of 4.00 sen per share amounting to RM56.2 million was approved by the Company's shareholders at the 35th Annual General Meeting and was duly paid out to shareholders on 30 July 2020.

Having taken into consideration the Company's financial performance, expected operating conditions for FY2021 and the Company's capital requirements going forward, the Board has recommended an ordinary dividend of 1.50 sen per share in respect of FY2020, subject to shareholders' approval at the forthcoming AGM to be held on 23 June 2021.

Total net dividend payable amounts to RM21.1 million.

AEON remains committed to its objective of creating value for all stakeholders as per its business purpose of People, Planet and Peace. We will continue to drive forward with the goal of creating shared prosperity and to reward our loyal shareholders, over the short, medium and long-term horizons. In doing so, Management strives to deliver both financial and non-financial value creation that will sustain AEON well into the future.

Thank you.

Shafie bin Shamsuddin

Managing Director/Chief Executive Officer

Dividend table	2016	2017	2018	2019	2020
Net dividend (RM'000)	42,120	56,160	56,160	56,160	21,060
Net dividend per share (sen)	3.00	4.00	4.00	4.00	1.50
Payout ratio (%)	*46.3%	53.5%	53.4%	51.4%	50.8%

Note:

* 2016 has been restated upon adoption of Amendments to MFRS 127, Equity Method in Separate Financial Statement.