

# LETTER FROM THE MANAGING DIRECTOR



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**MR. NAOYA OKADA**

**Managing Director**



## LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

It is my pleasure and privilege to address you in my new role as Managing Director since my appointment on 1 March 2024. Having served as AEON's Deputy Managing Director and Chief Operating Officer since 2022, I hope to leverage my insights into the Company's strategies and operational dynamics to steer AEON to greater heights. Building upon our solid foundations and leveraging the steadfast support of AEON People, I am confident we will make strong strides forward in our journey towards sustained success.

In FY2023, AEON navigated the year with agility, executing a series of strategic initiatives across the retail business and property management services business, creating long-term value for shareholders while strengthening business sustainability. The execution of these priorities has not only reinforced our solid foundation as one of the leading retailers in Malaysia but is also helping drive growth across our businesses and future-proofing AEON.

#### NAVIGATING A DYNAMIC OPERATING ENVIRONMENT

2023 saw the gradual recovery of economic activities as businesses ramped up their operations momentum to sustain the demand surge experienced post-reopening of economies and travel borders worldwide in 2022. However, since the reopening of economies post-pandemic, Malaysia, along with the rest of the world, have been impacted by macroeconomic headwinds that threaten to impede the trajectory of recovery.

Throughout 2023, consumers grappled with cost of living issues while businesses contended with supply chain disruptions, inflation, interest rate hikes and forex volatility to maintain margins. Faced with these headwinds, Malaysia also recorded a weaker performance with GDP growth of 3.7% in 2023 compared to 8.7% in 2022. The sharp decline was also partly due to the high base effect from the pent-up demand arising from the reopening of the Malaysian economy post-pandemic in 2022.

AEON operates within the vibrant and competitive retail landscape in Malaysia and was not spared from the impact of the ongoing macroeconomic headwinds facing the industry. As a consumer-centric business, our operations are much dependent upon the general market sentiment and consumer confidence level. Amid the soft consumer landscape, we leveraged our strong set of core operational strategies to remain competitive and deliver resilient results.

#### FINANCIAL PERFORMANCE

##### Revenue and Profit

AEON delivered a strong financial performance in FY2023 amid a soft consumer market landscape. Revenue is stable at RM4,129.0 million as compared to RM4,141.1 million registered in FY2022 underpinned by growth in property management services segment.

FY2023 retail segment revenue moderated by 2% to RM3,454.3 million as compared to RM3,525.6 million in FY2022. This was primarily attributable to the normalisation of market trends after the surge in demand in the previous year due to special factors including the pent-up demand from the reopening of economic activities which led to accelerated purchasing decisions in FY2022. As the effects of these gradually tapered off in FY2023, we saw revenue aligning to a more normalised market behaviours. Consequently, our average basket size also moderated slightly to RM61.90 as shopping trend returned to normalcy as customers shop more frequently after pandemic restrictions were lifted.

As consumers continued to contend with rising financial pressure from macroeconomic headwinds in FY2023, we saw consumers reprioritised their spends from discretionary spends to focus more on basic necessities and essential items. This was evident from the softer sales in Softline and Hardline while Foodline sales increased in FY2023.

#### Retail

REVENUE:  
FY2023

**RM3,454.3m**

FY2022: RM3,525.6m

#### Property Management Services

REVENUE:  
FY2023

**RM674.7m**

FY2022: RM615.5m

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Meanwhile, revenue from the property management services segment increased by 10% to RM674.7 million in FY2023 from RM615.5 million in FY2022, underpinned by improved occupancy rate at 93.2% and effective tenancy renewal rate of 95%, supported by our effective management and ongoing strategy of revitalising older assets.

We maintained stringent cost discipline and implemented stricter cost control efforts to counter the impact of increased electricity tariffs in FY2023. As a result, we recorded a stronger Profit After Tax (PAT) of RM114.8 million, an increase of 3.2% versus RM111.2 million in the previous year.

### Balance Sheet

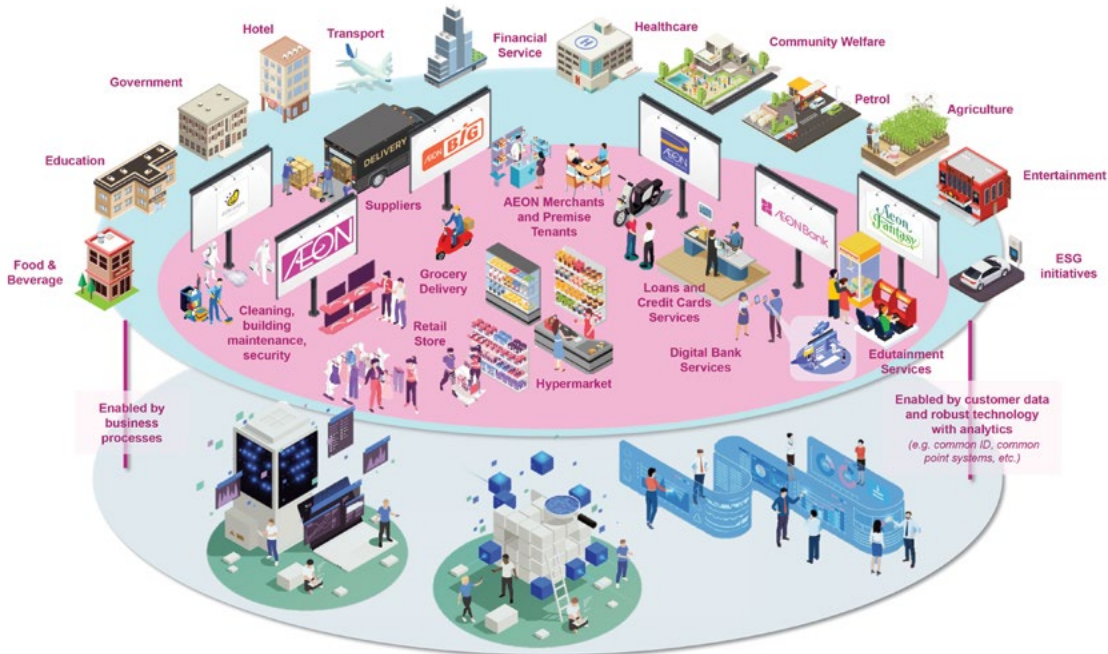
Our business remains cash-generative with a cash balance of RM100 million. We also pared down borrowings to RM420 million as of the end of FY2023 compared to RM498 million in FY2022.

We resumed our investment plans with a two-fold increase in our capital expenditure to RM380.6 million in FY2023. During the year, we opened our new GMS in Putrajaya and rejuvenated two AEON Malls, namely AEON Melaka Shopping Centre and AEON Mall Cheras Selatan. We also acquired the land in Kota Bharu, Kelantan where AEON Kota Bharu is located. Apart from this, we also invested in enhancing customer shopping experience through various major projects including mall facelifts and facilities upgrades alongside technology and system upgrades.

### STRATEGIC PRIORITIES FOR SUSTAINABLE GROWTH

As our operating landscape changes, our strategic priorities are focused on ensuring AEON keeps pace with the latest retail trends in the market. Leveraging the AEON Living Zone ecosystem, we increased our adaptability, agility and ability to pivot our business to better serve and cater to changing customer demands as well as our tenant partners. These priorities also include product innovation and technology development centred around customers to improve the overall shopping experience.

## AEON LIVING ZONE ECOSYSTEM AND STRATEGIC PRIORITIES



### RETAIL

#### Growing Customer Base

- New Store Opening and Store Facelifts
- Segment and Differentiate Sales Areas
- Strengthen Customer Loyalty
- Broaden Private Brands



### PROPERTY MANAGEMENT SERVICES

#### Increasing Footfall and Traffic

- Mall Rejuvenation and Facelifts
- Diversify Tenant Mix
- Effective Tenant Management
- Thematic Marketing



### SUSTAINABILITY

#### Championing Sustainable Practices

- Fortifying Economic Performance
- Strengthening Environmental Accountability
- Effective Positive Social Change
- Maintaining a Sound Governance Structure



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## RETAIL

Guided by our 'Customer-First' philosophy, we aim to grow our customer base through enhancing product portfolio mix while leveraging technology to enrich the shopping experience for customers.

### Growing Customer Base, Strengthening Brand Loyalty

In line with our plans to grow our customer base, we opened AEON Putrajaya in the first quarter of 2023 to serve the surrounding community and welcomed our 35<sup>th</sup> AEON store at Setia Alam on 18 March 2024.

We continued to invest in store facelifts and renovations to cater to a wider customer base. We also introduced innovative store formats such as Kids Republic, a dedicated section housing kids apparel, toys and kids-related products across our general merchandise store to make shopping more intuitive for customers. Products and services offered across different AEON Stores also varied slightly from one to another, segmented and differentiated by store based on the demands of the surrounding community. This allowed us to offer a unique and varied shopping experience, catering to a broader spectrum of customers by addressing customers' distinct shopping needs and preferences.

Additionally, to strengthen customer loyalty, we continued to enhance our AEON MEMBER Plus loyalty programme by collaborating with renowned brands such as Tupperware and Chef Wan Neoflam for specially-curated products made available to AEON members at privileged offers. We also continued to roll out a variety of deals such as 'Everyday Fresh Everyday Low Price' and

'Thursday is Better than Friday' promotions to offer more value to customers.

We also broadened our suite of products, including an extensive range of private brands such as TOPVALU, Inner Casual and HÓME CÓORDY to cater to the growing demand for quality and affordability. We also refreshed La Boheme's brand image and expanded the product range to include new categories like premium desserts and coffee. The Delicatessen was reimagined as a family-friendly destination, and we boosted in-store visibility through engaging customer events.

## PROPERTY MANAGEMENT SERVICES

Throughout FY2023, our Property Management Services team continued to revitalise our existing assets and actively collaborated with our tenant partners on various programmes and initiatives.

### Bolstering Tenant Growth, Increasing Customer Footfall

We rejuvenated AEON Melaka Shopping Centre and AEON Mall Cheras Selatan in FY2023, upgrading their facilities to elevate customer comfort and convenience. These rejuvenation projects resonated well with customers with sales in the respective reopening months for AEON Melaka Shopping Centre and AEON Mall Cheras Selatan increasing by more than 60% and 25%, respectively. These rejuvenation projects also involved the re-zoning of lettable areas, resulting in a more streamlined tenant layout across these malls. Common facilities such as toilets, baby rooms as well as prayers facilities were also upgraded to offer greater comfort to our customers.

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We also diversified our tenant mix to offer a more holistic shopping experience. By focusing more on lifestyle, food, sports, health, and beauty offerings, we aimed to attract the younger customer demographic, enriching their shopping experience with variety and quality. The addition of more than 400 new tenants in FY2023, with a notable increase in F&B options strengthened our tenant mix, making AEON a one-stop shop for all our customers' needs.

Furthermore, we intensified our efforts to increase tenant renewals and occupancy rates which are crucial for the sustained success of our malls. We continued to maintain a hybrid rental structure with our tenants, providing tenants both operational and financial flexibility. This resonated well with our tenant partners and as a result of this, we achieved a tenant renewal rate of 95% with an occupancy rate of 93.2%, exceeding pre-pandemic levels. Operational efficiency and productivity in mall management were also enhanced, with a focus on improving waste, electricity, and water management, ensuring our malls remained attractive, efficient, and sustainable destinations for our diverse range of customers.

Throughout the year, we teamed up with our tenant partners on thematic marketing and promotional initiatives to drive footfall to our malls. In FY2023, we hosted unique events that not only made it to the *Malaysian Book of Records* including 'The Largest Spiderman Costume Gathering', 'Largest Banana Leaf Rice Eating Session' and 'The Largest Baba and Nyonya Attire Gathering' but more importantly, these events drove tremendous footfall and led to higher sales for our retail business as well as tenants. These activities helped foster synergies within the AEON ecosystem and with our business partners, strengthening our overall offering.

### STRENGTHENING DIGITAL TRANSFORMATION

In FY2023, AEON further strengthened its digital transformation initiatives, building on the previous year's foundations to enhance customer experience and operational efficiency.

We continued to enhance the myAEON2go platform to complement our customers' physical shopping experiences while driving digital sales, offering them the convenience of shopping online with the assurance of the quality and service they expect from AEON. In FY2023, we increased the product assortment on the myAEON2go app and continued to carry out same-day delivery to offer greater convenience for customers.

The AEON Wallet app enables customers to make payment, collect points, discover the latest promotions and locate the nearest AEON Stores around them. This creates a more enriching customer experience and helps foster long-term brand loyalty and trust.

Further expanding our online presence, we teamed up with the foodpanda app to expand customer reach and convenience. This collaboration enabled customers to shop across 49 of our speciality stores including AEON MaxValu, AEON Wellness and DAISO products from the app, providing them access to nearly 13,000 items at in-store prices online with doorstep delivery.

The expansion of self-checkout counters (SCO) terminals across our stores also streamlined the checkout process, significantly reducing wait times and improving overall store efficiency. Over 300 SCOs were installed across AEON Stores, AEON MaxValu, AEON Wellness and DAISO



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outlets, achieving a utilisation rate of 28%, as compared to 182 SCOs with a utilisation rate of 10% in 2022.

### CHAMPIONING SUSTAINABLE PRACTICES

AEON remains committed to championing ESG practices to drive sustainable and responsible growth. To this end, we are guided by the AEON Sustainability Charter (ASC) to enhance our economic performance, strengthen environmental responsibility and drive positive social impact, while maintaining a sound governance structure.

Operationally, FY2023 saw us focusing our efforts on reducing the Company's carbon footprint by managing our energy consumption and further embracing renewable energy sources. The installation of solar photovoltaic systems at our malls boosted our renewable energy generation efforts throughout the year.

We continue to advocate for better waste management solutions with our organic waste disposal system at AEON Alpha Angle, which enables us to convert organic waste into fertiliser. In January 2023, AEON launched the 'Say No to Plastic Bag' campaign to eliminate single-use plastic bags at AEON cashiers and checkout counters across all AEON Stores, AEON MaxValu, AEON Wellness and DAISO outlets nationwide.

Throughout the years, AEON has endeavoured to uplift the social well-being of our local community by creating

sustainable economies for the communities where we operate, and we continue to do so. Additionally, AEON continues to uphold a robust governance system across all stakeholder dealings and business activities.

For a clear and comprehensive overview of our sustainability efforts, kindly turn to the Sustainability section on pages 44 to 90 in this Integrated Annual Report.

### OUTLOOK AND PROSPECTS

The retail industry is expected to experience a slower growth rate in 2024 weighed down by ongoing macro headwinds including the tightening of household income due to elevated cost pressures coupled with a weakened currency as well as ongoing global geopolitical tensions impacting global supply chains.

Consumer sentiment and discretionary spending are also likely to be affected by the revision of the service tax rate in 2024 along with the expected rollout of subsidy rationalisation in the second half of the year.

Amid the changing operating landscape, we stay guided by the AEON Basic Principles of pursuing peace, respecting people and contributing to the community by placing customers at the heart of our business, not just for long-term value creation, but more importantly, business sustainability.



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In the Retail segment, AEON will continue to leverage an ambitious yet focused strategy – expanding our customer base, enriching our product portfolio mix, and continuing to enhance the myAEON2go platform to better serve customers. This strategy will create a harmonious blend of physical and digital retail experiences, tailored to meet the evolving needs of our consumers and enhance their shopping convenience.

On the Property Management Services front, we will continue to increase the value of our existing assets by upgrading our malls to modernise and provide better facilities to enhance customer shopping experience, while strengthening our tenant mix with greater tenant diversity. Our goal is to cultivate vibrant, appealing retail environments through exemplary mall management and set a new benchmark in the industry.

Last but not least, sustainability will remain an integral component of our overall business strategy. We are committed to elevating our ESG practices, with the ambition of achieving our ESG goals under the five core pillars of the ASC. We intend to make this commitment evident in every aspect of our operations, from adopting energy-efficient measures to enhancing waste and water management, implementing initiatives that positively impact communities while upholding strong governance practices, among other measures.

As AEON embraces FY2024, we envisage our journey will be one of aspiration and determination. We are poised to navigate the complexities of the marketplace, leveraging our strengths in retail and property management while advancing our sustainability and digitalisation agendas. We remain resolute in driving innovation, championing unparalleled customer experiences, as well as delivering resilient and sustainable growth. We are confident that our strategies will not only propel us forward in our journey ahead but also strengthen our core to future-proof AEON.

### ACKNOWLEDGEMENTS

On behalf of the Company, I extend my deepest appreciation to our Chairman as well as other members of the Board and AEON Leadership Council for their unwavering guidance and strategic insights. A note of appreciation also goes to my predecessor, Mr. Keiji Ono, who resigned as Managing Director on 29 February 2024 and will be returning to AEON Japan to take on a new assignment. On behalf of the Company and management, thank you for your invaluable contributions, particularly in strategically strengthening the foundation of AEON's management structure, and we wish you every success in your future endeavours.

Our heartfelt thanks also goes out to our esteemed customers, business partners, tenants, suppliers, regulators, financiers and shareholders. Thank you for your unwavering support, patronage and confidence in AEON.

Last but not least, to our team of AEON People - thank you for your dedication, tenacity, trust, loyalty and ensuring that we continue to elevate customer experience by bringing joy and happiness to customers each time they visit our stores. Together, let us connect more hearts and bring more smiles to all AEON customers.

Thank you.

**Mr. Naoya Okada**  
Managing Director