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The Board of Directors
AEON Stores (Hong Kong) Co., Limited
Units 07-11, 26/F, CDW Building
388 Castle Peak Road, Tsuen Wan
New Territories, Hong Kong

Your ref: BC/CP1

29 April 2026

Dear Sirs

We refer to the circular dated 29 April 2026 in connection with the possible very substantial acquisition of equity interests in Guangdong AEON Teem Co., Ltd. through public tender by AEON Stores (Hong Kong) Co., Limited (the "Company") (the "Circular"), a copy of which is attached and stamped by us on its front cover for the purpose of identification.

We hereby consent to the inclusion of our accountants' report dated 29 April 2026 on the historical financial information for the years ended 31 December 2023, 2024 and 2025 and our report dated 29 April 2026 on the pro forma financial information as at 31 December 2025 and for periods covered by the pro forma financial information in the Circular, and the references to our name in the form and context in which they are included.

Yours faithfully

Certified Public Accountants
Hong Kong

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in AEON Stores (Hong Kong) Co., Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

**(1) POSSIBLE CONNECTED TRANSACTION AND
VERY SUBSTANTIAL ACQUISITION IN RELATION
TO THE ACQUISITION OF EQUITY INTERESTS
IN AEON GD THROUGH PUBLIC TENDER
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 5 to 15 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong on Friday, 15 May 2026 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend and vote at the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Investor Services Limited, at 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude you from subsequently attending and voting in person at the extraordinary general meeting or any adjourned meeting if you so wish.

Reference to time and dates in this circular are to Hong Kong time and dates.

29 April 2026

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meaning:

“AEON Co”	AEON Co., Ltd., a company incorporated in Japan with limited liability and the issued shares of which are listed on the Tokyo Stock Exchange, and the controlling shareholder of the Company
“AEON GD” or “Target Company”	Guangdong AEON Teem Co., Ltd.* (廣東永旺天河城商業有限公司), a company incorporated in the PRC and owned as to 65% by the Company and 35% by Teemall Department Stores
“Announcement”	the announcement of the Company dated 13 April 2026
“Assets and Equity Exchange”	Guangdong United Assets and Equity Exchange (廣東聯合產權交易中心), an exchange platform for the trading of assets and equities of State-owned enterprises under the central government of the PRC
“Bid”	the bid proposed to be submitted by the Company in the Public Tender for the acquisition of the Target Interest from Teemall Department Stores
“Board”	the board of Directors
“Company”	AEON Stores (Hong Kong) Co., Limited (永旺(香港)百貨有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 984)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EBITDA”	earnings before interest, taxes, depreciation, and amortization
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, granting the Proposed Mandate to the Directors

DEFINITIONS

“Enlarged Group”	the Group immediately upon the completion of the Proposed Acquisition
“GBA”	the Guangdong-Hong Kong-Macao Greater Bay Area
“GDP”	gross domestic product
“Group”	the Company and its subsidiaries
“Guangdong Government”	the People’s Government of Guangdong Province, the PRC (中國廣東省人民政府)
“Guangdong Holdings”	Guangdong Holdings Limited* (廣東粵海控股集團有限公司), a company established in the PRC with limited liability
“Guangdong Investment”	Guangdong Investment Limited, a company listed on the Stock Exchange (stock code: 270)
“Guangdong Investment Announcement”	the announcement of Guangdong Investment dated 30 March 2026
“HKFRS”	HKFRS Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JPY”	Japanese Yen, the lawful currency of Japan
“Latest Practicable Date”	29 April 2026, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Maximum Bid Price”	the maximum bid price to be submitted by the Company for the acquisition of the Target Interest from Teemall Department Stores

DEFINITIONS

“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Acquisition”	the submission of the Bid for the possible acquisition of the Target Interest by the Company from Teemall Department Stores
“Proposed Mandate”	the general mandate to be granted in advance by the Shareholders at the EGM to the Directors to enter into and complete the Proposed Acquisition
“Public Tender”	the proposed public tender for the Target Interest through the Assets and Equity Exchange
“Reserve Price”	the minimum bid price of RMB152,184,700 for the Target Interest at the Public Tender which was set by the Vendor as disclosed in the Guangdong Investment Announcement
“RMB”	renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	holders of the shares of the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Interest”	a total of 35% of the equity interests of AEON GD held by Teemall Department Stores
“Teemall Department Stores” or “Vendor”	Guangdong Yuehai Teemall Department Stores Holdings Limited* (廣東粵海天河城百貨發展有限公司), a company incorporated in the PRC with limited liability and a shareholder of AEON GD
“Teem Holding”	GDH Teem (Holdings) Limited* (廣東粵海天河城 (集團) 股份有限公司), a company incorporated in the PRC with limited liability
“Transaction Confirmation”	has the meaning given under paragraph title Payment of the Consideration

DEFINITIONS

“Valuation Report” the valuation report prepared by Jones Lang Lasalle Corporation Appraisal and Advisory Limited, a firm of independent professional valuers

“%” per cent.

* the English names of the addresses situate at or entities incorporated in the PRC are translation of their respective Chinese addresses or company names for the purpose of identification only

Unless otherwise indicated, the exchange rate of HK\$1.13=RMB1.00 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or at any other rates.

LETTER FROM THE BOARD



AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

Executive Directors:

Mr. Takenori NAGASHIMA (*Managing Director*)

Mr. Shinya HISANAGA

Non-executive Directors:

Mr. Toshiya GOTO (*Chairman*)

Mr. Hiroyuki INOHARA

Mr. Yasutoshi YOKOCHI

Independent non-executive Directors:

Mr. Hideto MIZUNO

Ms. SHUM Wing Ting

Ms. WONG Mei Ling

Registered office:

G-4 Floor

Kornhill Plaza (South)

2 Kornhill Road

Hong Kong

*Office and principal place of
business of the Company:*

Units 07-11, 26/F

CDW Building

388 Castle Peak Road, Tsuen Wan

New Territories, Hong Kong

To the Shareholders

Dear Sir or Madam,

**(1) POSSIBLE CONNECTED TRANSACTION AND VERY SUBSTANTIAL
ACQUISITION IN RELATION TO THE ACQUISITION
OF EQUITY INTERESTS IN AEON GD THROUGH PUBLIC TENDER
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement of the Company in relation to the Proposed Acquisition.

LETTER FROM THE BOARD

As disclosed in the Announcement, on 13 April 2026 (after trading hours), the Board has resolved to submit Bid to acquire a total of 35% of the equity interests of AEON GD held by Teemall Department Stores, by way of Public Tender, at a total consideration of no more than RMB170,269,000. According to the Guangdong Investment Announcement, Teemall Department Stores intends to transfer a total of approximately 35% of the equity interests of AEON GD that it held and such transfer is to be conducted through public tender through the Assets and Equity Exchange, pursuant to the Company Law of the PRC, the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises and the articles of association of Teemall Department Stores and AEON GD. The Proposed Acquisition will constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

As required under the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (Order No. 32 of SASAC and Ministry of Finance), transfer of the Target Interest by Teemall Department Stores, being a state-owned enterprise, is required to be conducted in public through a property rights market and Teemall Department Stores has selected to transfer the Target Interest at the Assets and Equity Exchange.

As an existing shareholder of AEON GD holding 65% equity interests, the Company has a right of first refusal to acquire the Target Interest pursuant to the articles of association of AEON GD, provided that the acquisition is to be made on the same terms as the highest bid in the Public Tender. However, the Board considers that it is commercially desirable for the Company to participate in the bidding process of the Public Tender. If the Company does not participate in the bidding process of the Public Tender, and there is no third-party bidder in the Public Tender, the Public Tender would fail and the Vendor will need to restart the tender process again which will in turn delay the process in disposing the Target Interest. During the period of the disposal of the Target Interest, many of the steps for the implementation of the Company's plan for enhancing the profitability of AEON GD will be put on hold until the disposal is concluded. Accordingly, it is in the Company's interest that the disposal is concluded as soon as possible such that the Company may commence the implementation of the Company's plan soonest possible thereafter; hence, given that the Company is of the view that acquiring the Target Interest at no more than the Maximum Bid Price is in its best interest and the interest of the Shareholders of the Company as a whole, the Company believes that it is strategically advantageous to the Company to participate in the bidding process rather than waiting for the opportunity to exercise its right of first refusal once the successful bidder is confirmed.

The purpose of this circular is to provide you with, among other things, (i) the further details of the Proposed Mandate, the Proposed Acquisition and the relevant equity transfer agreement; (ii) the financial information of AEON GD; (iii) the unaudited pro-forma financial information of the Enlarged Group; (iv) the details of the Valuation Report; (v) other information as required under the Listing Rules; and (vi) the notice of the EGM.

LETTER FROM THE BOARD

THE PROPOSED ACQUISITION

The Company intends to participate in the bidding for the sale of the Target Interest on the Asset and Equity Exchange.

Set out below are the details of the Proposed Acquisition:

Subject Matter

Subject to Shareholders' approval of the Proposed Mandate, the Company proposed to submit a Bid in the Public Tender in accordance with the rules of the Assets and Equity Exchange to acquire 35% of the equity interests of the Target Company.

Parties

Bidder and/or purchaser: The Company

Vendor: Teemall Department Stores

The Group is principally engaged in the operation of retail stores in Hong Kong and the PRC.

Teemall Department Stores is principally engaged in department store operations and leasing of non-residential property. Teemall Department Stores is a wholly-owned subsidiary of Teem Holding, which is in turn a non-wholly owned subsidiary of Guangdong Investment. The ultimate beneficial owner and controlling shareholder of Guangdong Investment is Guangdong Holdings which is held as to 90% by the Guangdong Government and as to 10% by the Department of Finance of the Guangdong Province.

Upon successful completion of the Proposed Acquisition, the Company will hold 100% of the equity interests in AEON GD. AEON GD will remain a subsidiary of the Group and its financial results will continue to be consolidated into the consolidated financial statements of the Group.

LETTER FROM THE BOARD

Information of the Target Company

AEON GD is a company incorporated in the PRC, and is principally engaged in the business operation of retail stores in the PRC. It is a non-wholly owned subsidiary of the Group and its financial results have been consolidated into the consolidated financial statements of the Group. As at the date of this circular, AEON GD is owned as to 65% by the Company and as to 35% by Teemall Department Stores. The registered capital of AEON GD is RMB247.156 million (equivalent to approximately HK\$279.29 million).

AEON GD was established in 1995, and Teemall Department Stores made a capital contribution of RMB86,504,600 (which has been fully paid up) in AEON GD, representing 35% of the registered capital in AEON GD.

For the two years ended 31 December 2024 and 2025, extract of key items from the accountants' report of the Target Company set forth in Appendix II of this circular are as follows:

	For the year ended/As at 31 December 2024	For the year ended/As at 31 December 2025
	<i>(Note)</i>	<i>(Note)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,477,927	3,456,207
Net loss (before taxation)	(4,951)	(75,653)
Net loss (after taxation)	(6,912)	(77,749)
Total assets	2,098,544	2,172,493
Net assets value	267,161	189,412

Note: The key items from the accountants' report of the Target Company set forth in Appendix II of this circular has been prepared based on HKFRS, whereas the key items of the Target Company for the two years ended 31 December 2024 and 2025 disclosed in the Announcement have been prepared based on PRC Generally Accepted Accounting Principles. For details on the accounting policies under the accountants' report of the Target Company, please refer to Note 3 (*Material Accounting Policies*) of the Notes to the Historical Financial Information in Appendix II.

LETTER FROM THE BOARD

Maximum Bid Price

The total price for the Bid that the Company proposed that it shall submit is no more than RMB170,269,000.

The Reserve Price, being RMB152,184,700, refers to the minimum price in the public tender which was set by the Vendor and, as disclosed in the Guangdong Investment Announcement, was determined based on the appraised value of the Target Interest pursuant to the valuation report prepared by an independent professional valuer engaged by Teemall Department Stores. The Maximum Bid Price was determined after having taken into account other factors by the Company including (i) the Reserve Price; (ii) the appraised value amount of the Target Interest of RMB170,269,000 as at 31 December 2025 according to the Valuation Report prepared by an independent professional valuer engaged by the Company using the market approach; (iii) the business operation of AEON GD; (iv) the net asset value of AEON GD; and (v) the other factors set out in the section headed "Reasons for and benefits of the Proposed Acquisition" in this circular. Based on the nature of retail business, AEON GD relies on sales volume, pricing power and cost structure of its retail stores to generate profit. AEON GD's ability to generate revenue and profit is not significantly correlated to its assets and to its net asset value. Accordingly, AEON GD's net asset value should not be the only factor to determine the total price for the Target Interest.

Taking into account of the abovementioned factors, the Directors are of the view that acquiring the Target Interest at no more than the Maximum Bid Price is fair and reasonable and in its best interest and the interest of the Shareholders of the Company as a whole.

Bid Deposit

It is expected that a deposit in an amount of 30% of the Reserve Price shall be paid to the Assets and Equity Exchange at the time of submission of the Bid.

Process of the Public Tender

On 27 April 2026, the Vendor submitted to the Assets and Equity Exchange the tender notice which states the Company has a subsisting right of first refusal for the purchase of the Target Interest, and the publication period for the Public Tender shall be 20 working days from the date of the tender notice. During the publication period, qualified bidders may indicate their intention to purchase the Target Interest and register themselves as prospective bidders. The closing date of the publication period in respect of the Target Interest is expected to be on 26 May 2026. In the event that there is only one registered bidder subject to the Company's right of first refusal, the transfer will be effected at the price submitted by such registered bidder. In the event that there are two or more registered bidders, a centralized online competitive bidding process will be implemented to determine the highest bid. The successful bidder in the Public Tender will receive notice from the Assets and Equity Exchange in accordance with the rules of the Assets and Equity Exchange.

LETTER FROM THE BOARD

If the Company is unsuccessful with the bidding in the Public Tender, the Board will consider whether to exercise the Company's right of first refusal to acquire the Target Interest on the same terms as the highest bid in accordance with the articles of association of AEON GD. If the Company decides to exercise such right of first refusal, the Company will comply with applicable Listing Rules requirements including but not limited to announcement, circular and Shareholders' approval requirements prior to exercising the right of first refusal.

If the Company is successful with the bidding at the Public Tender, the Vendor will fill in the transaction details, obtain the internal approval and submit the prescribed form of equity transfer agreement to the Assets and Equity Exchange for processing within 4 working days, and the Company will enter into the equity transfer agreement in respect of the Proposed Acquisition with Teemall Department Stores within the subsequent 4 working days. The prescribed form is not subject to negotiation or amendment and the Assets and Equity Exchange does not allow the Company to include a condition precedent that completion is conditional upon the Company having obtained Shareholders' approval for the Proposed Acquisition. Accordingly, if the Company becomes the successful bidder at the Public Tender, and the Company will become obliged to complete the Proposed Acquisition. Hence, the Company will not be able to seek the approval of the Shareholders in time for the Proposed Acquisition, as required under Chapter 14 of the Listing Rules. Accordingly, the Board would like to seek the approval of the Proposed Mandate from the Shareholders at the EGM in advance so as to conduct the Proposed Acquisition.

EQUITY TRANSFER AGREEMENT

The principal terms of the prescribed form of equity transfer agreement are as follows:

Payment of the Consideration

The consideration less the deposit paid upon submission of the Bid is payable in full to the Assets and Equity Exchange within 5 working days from the signing of the equity transfer agreement and will be satisfied by the internal resources of the Group. After receiving the consideration, the Assets and Equity Exchange will then issue a transaction confirmation (the "**Transaction Confirmation**") and transfer the entire amount of the consideration to Teemall Department Stores without interest within 3 working days from the date of the Transaction Confirmation.

Profit and Loss Distribution

The profits and losses of the Target Company incurred during the period from the day after 30 June 2025, up to and including the date of completion of the industrial and commercial registration of changes regarding the Proposed Acquisition, shall be borne and gained by the shareholders of the Target Company after the industrial and commercial registration of changes in proportion to their respective equity interests.

LETTER FROM THE BOARD

Registration of the Transfer of Target Interest

The relevant industrial and commercial registration of changes regarding the Proposed Acquisition shall be completed by AEON GD within 30 working days after receipt of the Transaction Confirmation.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The principal business of the Group is the operation of retail businesses through chain stores under the trade names of “AEON STYLE”, “AEON” and “AEON SUPERMARKET” in Hong Kong and the PRC. In 2025, the Group strategized to increase market share in the Greater Bay Area and capitalized on the increasing customer traffic resulting from changes in the external environment, including the “northbound consumption” trend among Hong Kong residents. The Group revitalized and renovated Guangzhou Teemall Store, an AEON STYLE store operating by AEON GD, during the year to meet customers’ evolving needs and provide differentiated shopping experiences. The Proposed Acquisition synergizes with the Group’s strategy to solidify the Group’s presence in GBA and to create long-term value for the Company and its Shareholders as a whole.

AEON GD owns and operates 41 sizeable stores in Guangdong Province as at 31 December 2025 that contributes to and maintains the Group’s scale of operation, which in turn benefits the Group in lowering the overall operation costs, enhancing the Group’s negotiations with its business partners and expanding its store network and market shares. Having been operating the retail businesses in the Guangdong Province since 1995, AEON GD has successfully accumulated a substantial and valuable customer base, and achieved satisfactory business results. The Proposed Acquisition represents an excellent opportunity for the Group to be in full control of AEON GD in order to protect its long-term investment and position as a market player.

Based on the above reasons, the Company has decided to proceed with the Proposed Acquisition. In relation to the going concern issue disclosed in the annual results announcement of the Company for the year ended 31 December 2025 and Appendix I of this circular, the Directors have given careful consideration of the liquidity requirements for the Group’s operations and reviewed the Group’s cash flow projections prepared by management which covers at least twelve months from the date of this circular. Based on the anticipated cash flows, continued financial support from its immediate and ultimate holding company, AEON Co, to enable the Group to continue its operations and to meet its liabilities as and when they fall due, and assuming the inter-company loan can be extended upon their maturities, the Directors, are of the opinion that the working capital available to the Group is sufficient for its requirements for at least 12 months from the date of this circular having taken into account of the Proposed Acquisition. The Group has taken and will take certain plans and measures in order to mitigate the liquidity pressure, improve its financial position and to sustain the Group as a going concern.

LETTER FROM THE BOARD

The Company is actively implementing a turnaround plan to revive and improve the business performance of the Group. In this connection, the Company is in the process of formulating plans to enhance the profitability of AEON GD, including strategic restructuring and optimisation of store locations and operations in the PRC. If a new party were to purchase the Target Interest, the implementation of the turnaround plan may be hindered as the effective implementation of such plans would require the consent from the new joint venture party. The Board considers that, upon completion of the Proposed Acquisition resulting in the Company holding 100% equity interest in AEON GD, the Company will be in a better position to align, integrate and rationalise the operations of the stores operated by AEON GD with the Group's other store operations in the PRC, thereby enhancing operational efficiency and capturing economies of scale.

Taking into account the above factors, the Directors are of the view that the terms of the Proposed Acquisition are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. None of the Directors has a material interest, and none of the Directors was required to abstain from voting on the resolution in relation to the Proposed Acquisition.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

Upon completion of the Proposed Acquisition, the Company will increase its equity interests in AEON GD from 65% to 100% and AEON GD will remain a subsidiary of the Group and its financial results will continue to be consolidated into the consolidated financial statements of the Group.

As AEON GD is already a subsidiary with its financial results fully consolidated with non-controlling interests prior to completion, the Proposed Acquisition will not change the basis of consolidation and, given the transaction is structured as an acquisition of non-controlling interests without a change in control, no goodwill is expected to arise.

The primary financial effects will be the elimination of the existing non-controlling interests (thereby increasing profit attributable to owners of the Company to 100% of AEON GD's earnings), together with the reduction in the Group's cash position for the consideration paid.

LETTER FROM THE BOARD

Earnings

Based on the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group, the loss after tax of the Group would have increased from approximately HK\$354.1 million to approximately HK\$362.9 million on a pro forma basis. As set out in the accountants' report of AEON GD in Appendix II to this circular, the net loss after tax of AEON GD for the year ended 31 December 2025 amounted to approximately RMB77.7 million (approximately HK\$87.8 million). The increase in loss after tax of the Enlarged Group is mainly due to the pro forma adjustment arising from the provision of acquisition related costs of approximately HK\$2.3 million and the pro forma adjustment arising from the provision of financing cost of approximately HK\$6.6 million.

Asset and liabilities

Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the total assets of the Group would have decreased from approximately HK\$4,909.6 million to approximately HK\$4,903.7 million on a pro forma basis, the total liabilities of the Group would have increased from approximately HK\$5,695.5 million to approximately HK\$5,882.9 million on a pro forma basis, and the net liabilities of the Group would have increased from approximately HK\$785.9 million to HK\$979.2 million on a pro forma basis.

Further details of the potential financial impacts of the Proposed Acquisition together with the basis in preparing the unaudited pro forma financial information of the Enlarged Group are set out in Appendix IV to this circular.

As the joint venture agreement (which established the operational period of AEON GD in 1995, as amended from time to time) is set to expire on 30 June 2026, the Vendor and the Company will discuss in good faith to pursue a short-term extension of the joint venture agreement to avoid any potential winding up of AEON GD which may have a material adverse financial impact on the Group.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

Connected Transaction at Subsidiary Level

As at the date of this circular, AEON GD is held as to 65% by the Company and 35% by Teemall Department Stores. AEON GD is a non-wholly owned subsidiary of the Company and Teemall Department Stores is therefore a substantial shareholder of a subsidiary of the Company. Accordingly, Teemall Department Stores is a connected person of the Company at the subsidiary level under Rule 14A.07(1) of the Listing Rules. If the Company is successful with the bidding at the Public Tender, the Proposed Acquisition will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As (i) Teemall Department Stores is a connected person of the Company at subsidiary level; and (ii) the Board (including the independent non-executive Directors) has considered, confirmed and approved that the Proposed Acquisition is on normal commercial terms and the terms of the Proposed Acquisition are fair and reasonable and in the interests of the Group and the Shareholders as a whole, pursuant to Rule 14A.101 of the Listing Rules, the Proposed Acquisition is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Very Substantial Acquisition

As the highest applicable percentage ratio as defined under the Listing Rules in respect of the transactions contemplated under the Proposed Acquisition is more than 100%, the Proposed Acquisition shall constitute a very substantial acquisition for the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

EGM

The Company will seek approval at the EGM for the Proposed Mandate. As far as the Directors are aware, none of the Shareholders has a material interest in the Proposed Mandate which is different from those of other Shareholders. As such, no Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Proposed Mandate at the EGM. At the EGM, ordinary resolution approving the Proposed Mandate and the transactions contemplated thereunder shall be proposed and, if thought fit, approved by the Shareholders.

As the Proposed Acquisition is subject to the result of public tender, the Proposed Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

A notice convening the EGM to be held at Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong on Friday, 15 May 2026 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Shareholders of the Company are advised to read the notice and complete and return the form of proxy for use at the EGM enclosed with this circular in accordance with the instructions printed thereon.

LETTER FROM THE BOARD

A form of proxy for the EGM is enclosed with this circular. Whether or not Shareholders are able to attend the EGM in person, they are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Investor Services Limited, at 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from subsequently attending and voting in person at the EGM or any adjournment thereof should they so wish.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 May 2026 to 15 May 2026, both days inclusive, for the purpose of determining Shareholders' entitlement to attend and vote at the EGM, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the EGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's share registrar, Tricor Investor Services Limited, at 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:30 p.m. on 11 May 2026. The record date for determining the eligibility of the Shareholders to attend and vote at the EGM will be Friday, 15 May 2026.

RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the Proposed Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Proposed Mandate and the proposed transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular and the notice of EGM.

By Order of the Board
AEON Stores (Hong Kong) Co., Limited
Takenori NAGASHIMA
Managing Director

29 April 2026

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the years ended 31 December 2023, 2024 and 2025 are disclosed in the following documents which are published on both the websites of the Stock Exchange and the Company. Please refer to the hyperlinks as stated below:

Annual report of the Company for the year ended 31 December 2023:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0426/2024042603807.pdf>
(pages 61 to 129)

Annual report of the Company for the year ended 31 December 2024:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2025/0425/2025042502343.pdf>
(pages 59 to 127)

Annual results announcement of the Company for the year ended 31 December 2025:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2026/0327/2026032700838.pdf>
(pages 1 to 10)

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2026, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

Bank guarantees

As at 31 March 2026, the Group had aggregate outstanding bank guarantees of approximately HK\$154.3 million, of which approximately HK\$44.8 million is secured by pledged bank deposits and approximately HK\$109.5 million is unsecured. None of the above are guaranteed as at 31 March 2026.

Other borrowings

As at 31 March 2026, the inter-company loan due to its immediate and ultimate holding company amounted to JPY 10,693.7 million (approximately HK\$545.0 million), bearing interest rate at 3.45% to 3.48% per annum in which (i) JPY 1,279.6 million (approximately HK\$65.6 million) will be repayable on 30 June 2026, (ii) JPY 9,414.1 million (approximately HK\$479.3 million) will be repayable on 28 February 2027. The loan is unsecured and unguaranteed.

Lease liabilities

As at 31 March 2026, the Group had lease liabilities with outstanding principal amount of approximately HK\$3,014.6 million.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of the business, as at the close of business on 31 March 2026, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.

3. WORKING CAPITAL STATEMENT

During the year ended 31 December 2025, the Group incurred a loss for the year of HK\$354,054,000 and net cash outflow in respect of operating activities and lease liabilities of HK\$255,382,000. As at 31 December 2025, the Group has net current liabilities of HK\$1,560,104,000. As of the date of this circular, the inter-company loan due to its immediate and ultimate holding company amounting to HK\$745,692,000, in which (i) HK\$65,632,000 drawdown in February 2026 will be repayable on 30 June 2026, (ii) HK\$680,060,000 will be repayable on 28 February 2027. The Group would require continued financial support from its immediate and ultimate holding company to continue its operation as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of such circumstances, the Directors have given careful consideration of the liquidity requirements for the Group's operations and reviewed the Group's cash flow projections prepared by management which covers at least twelve months from the date of this circular. Management's cash flow projections include assumptions with regards to the anticipated cash flows generated from and used in the Group's operations and related capital expenditures and continued financial support from its immediate and ultimate holding company, AEON Co, including the extension of the repayment of inter-company loan amounting to HK\$745,692,000 and additional sufficient financial resources to enable the Group to continue its operations and to meet its liabilities as and when they fall due. The Directors, after due and careful consideration and after taking into account the financial resources available to the Group, and assuming the inter-company loan can be extended upon their maturities, are of the opinion that the working capital available to the Group is sufficient for its requirements for at least 12 months from the date of this circular. The Company has obtained a letter on the working capital statement from its auditor as required under Rule 14.66(12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

Reference is made to the Company's annual results announcement for the year ended 31 December 2025. As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2025, being the date to which the latest audited consolidated financial statements of the Company were made up.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

In 2025, against a backdrop of geopolitical tensions and high tariffs, the global economy demonstrated robust resilience and maintained stable and moderate growth overall. Hong Kong's economy recorded a notable recovery, though the local retail sector remained affected by a number of factors. The business environment in the Chinese Mainland remained complex, with consumer sentiment still cautious. Facing a volatile market environment, the Group actively responded to market changes and continued to promote merchandise reform, store network optimization and digital transformation, aiming to improve operational efficiency and maintain business resilience.

Hong Kong Operations

In 2025, Hong Kong's economy demonstrated steady growth, with real GDP rising by 3.5%, accelerating from the 2.6% increase recorded in 2024. However, affected by multiple structural challenges, including the surge in "northbound" consumption by Hong Kong residents, intensified competition from Chinese Mainland e-commerce platforms expanding into Hong Kong, and shifts in tourist consumption patterns, the provisional estimate for Hong Kong's total retail sales value was HK\$380.5 billion. This represents only a slight increase of 1.0% over 2024, with local consumption pressures persisting. In this business environment, the Group proactively adjusted its business model and advanced reforms across multiple areas, including merchandise strategy, store network and operational management.

During the year, the Group accelerated its merchandise reform efforts, including restructuring its private brand portfolio and enhancing product differentiation. In addition to TOPVALU, HÓME CÓORDY and PEACE FIT WARM/COOL, the Group introduced fashion brand ESSEME during the year and further expanded SELF+SERVICE, which were both well-received by customers. This drove significant year-on-year sales growth of more than 21% for private brands. In terms of its product portfolio, the Group kept up to date with market trends and successfully launched popular IP products such as “Opanchu Usagi”. Concurrently, it further expanded its range of products imported directly from Japan and Southeast Asia, providing customers with a richer selection. In addition, the Group continued to provide customers with distinctive products and new shopping experiences through themed promotional events such as AEON’s “Vietnamese Fair”, “Japanese Food Fair”, “Korean Fair”, and “TOPVALU Fair”, thereby implementing its product differentiation strategy.

The Group continued to expand into different formats and flexibly develop specialty stores. During the year, in addition to the opening of AEON STYLE Kai Tak and the upgrade and renovation of AEON STYLE Kornhill, the Group focused its resources on developing the “differentiation + high-return” specialty store model. This included the opening of the DAISO Japan WORFU store, the Green Code store, and the AEON Mono Mono stores in Ngau Tau Kok, Tai Po Tai Yuen Estate and Tsing Yi. Leveraging the advantages of specialty stores, including flexible locations, lower overall operating costs and relatively low rental costs, combined with the Group’s high-value product mix, the model helped drive profit performance.

To enhance operational efficiency, the Group continued to advance its digital transformation, including expanding the application scope of electronic shelf labels, self-checkout systems and the “Mobile Assistant”. In December, the Group also piloted Hong Kong’s first X-Trolley smart shopping cart at AEON STYLE Kai Tak. Equipped with product location features and rapid self-checkout options, it simplifies the shopping process for customers while reducing manual operations. During the year, the Group continued to enhance the promotion and operation of online platforms such as the AEON APP to strengthen its e-commerce performance. In addition, the Group implemented reforms across multiple fronts to increase overall efficiency, including improving warehousing and logistics efficiency, optimizing human resource allocation, and reviewing and adjusting leasing arrangements.

During the year under review, revenue from Hong Kong operations recorded a full-year revenue decline of approximately 4.1% to HK\$3,592.3 million (2024: HK\$3,746.0 million), and a loss of HK\$192.4 million, which represented a narrowing compared with the corresponding period last year (2024: loss of HK\$288.2 million).

Looking ahead to 2026, Hong Kong's economy is expected to continue the recovery trend seen in 2025. Benefiting from the rebound of the Chinese Mainland economy, a stronger Renminbi, and consumption stimulus measures, the retail sector is set to regain momentum. The Group will drive sales and profitability through a series of operational reforms and strategic initiatives, while strengthening cost management and institutional reform to achieve its overall business objectives.

In terms of product structure, the Group will optimize the assortment of its private brand products and strengthen their sales performance to differentiate itself in the market, consolidate its differentiated competitive edge, and leverage the products as an engine for profit growth. In addition, the Group will focus on growth categories and those with share gaps, and improve its sales structure and gross margin performance through more precise merchandise strategies and resource allocation. It will also continue to provide products that highlight AEON's unique characteristics and offer highly competitive prices through global sourcing and increased direct imports. At the same time, the Group will explore new business growth opportunities to fill gaps in its current assortment and provide suitable exclusive products tailored to customer needs.

The Group will continue to accelerate the expansion of its specialty stores, with the goal of opening 10 new AEON Mono Mono stores in 2026. It will also strengthen its profitability by refining its product portfolio, supply chain, and promotional activities. In addition, the Group will continue to review its store portfolio, make flexible adjustments as needed, and proactively monitor store performance. Where necessary, it will streamline its retail network to improve operational efficiency.

Facing pressure from rising fixed costs, the Group will focus on improving inventory management and turnover efficiency in order to boost gross margin and cash flow. At the same time, it will strive to reduce overall logistics costs and improve operational efficiency through supply chain restructuring, the introduction of new logistics models, the activation of the Shenzhen warehouse, and strengthened collaboration with AEON TOPVALU Co., Ltd.

Additionally, the Group will accelerate its digital transformation to drive long-term competitiveness through technology. It will work closely with AEON Digital Management Center to apply digital technologies across merchandise management, the supply chain, store operations, promotions, and management. This includes an AI security system, smart shopping carts, the ONE AEON membership system, e-vouchers, and the "Mobile Assistant", enhancing the customer experience and the Group's operational efficiency. Meanwhile, the Group will expand the scale of the AEON APP and increase the number of self-pickup locations to optimize existing services and enhance the Group's market competitiveness.

Chinese Mainland Operations

In 2025, the Chinese Mainland economy maintained steady growth, supported by policy measures. However, it continued to face challenges such as an imbalance between “strong supply and weak demand”, volatility arising from real estate market adjustments, and a more complex external trade environment. Last year, the Chinese Mainland’s GDP exceeded RMB140 trillion, representing a year-on-year increase of 5.0%. In 2025, Guangdong Province’s GDP grew by 3.9% year-on-year to RMB14.58 trillion. Total retail sales of consumer goods for the year increased by 2.8% year-on-year, a growth rate 2.0 percentage points faster than the previous year.

During the year, the Group capitalized on the increased customer traffic resulting from changes in the external environment, including the “northbound consumption” trend among Hong Kong residents. It opened eight new stores including the AEON Guangzhou Hengbao Store, Guangzhou Lingzhan Store, Guangzhou Guanghuicheng Store, Guangzhou Hanxi Avenue Store, Guangzhou Tower Store, Shenzhen Longgang Renheng Store, Foshan MixC Store, Jiangmen Lihe Plaza Store. This enabled the Group to achieve its goal of increasing market share in the Greater Bay Area. Meanwhile, the Group revitalized and renovated the Foshan Oriental Plaza Store, Dongguan First International Store and Guangzhou Teemall Store during the year to meet customers’ evolving needs and provide differentiated shopping experiences. AEON STYLE Guangzhou Teemall broke away from traditional department store classification methods, by enhancing four key elements – merchandise, services, environment, and experience – to offer customers a personalized, immersive, and enjoyable shopping journey. However, due to changes in customer demographics and demand, as well as intensified industry competition, the segment saw a decrease in performance.

Revenue from the Chinese Mainland operations recorded a full-year revenue decline of approximately 3.4% to HK\$4,202.9 million (2024: HK\$4,349.3 million), and a loss of HK\$159.7 million (2024: loss of HK\$65.8 million).

The year 2026 marks the beginning of the “15th Five-Year Plan” for the Chinese Mainland economy, with macro policies expected to focus on expanding domestic demand. The Group will seize relevant opportunities to rebuild its operational foundation and accelerate the pace of business transformation. The Group will clearly define its target customer base and deliver tailored products and services based on their specific needs. At the same time, it will prioritise membership management to steadily increase both membership numbers and purchase frequency. In addition, by expanding the sales scale of the AEON APP and improving real-time delivery services, the Group will deepen the online-offline integrated experience, thereby boosting customer loyalty and lifetime value.

In terms of store format deployment and product structure, the Group continues to expand its Supermarket operations with the aim of increasing its market share. Leveraging its existing TOPVALU products as the foundation of its stores offering, the Group seeks to establish a low-cost operating model while simultaneously developing new products to build a competitive edge in both price and quality. The Group plans to open 3 new Supermarkets in the coming year.

To ensure it achieves its strategic goals, the Group will proceed with the concurrent development of new systems, logistics, and organizational structures. By upgrading its system and logistics center, the Group will integrate a new regional distribution hub to support its business growth in South China, and, through digitalization and infrastructure enhancements, comprehensively improve on-site operations and store efficiency.

FINANCIAL REVIEW

In the year 2025, the Group's revenue decreased by 3.7% year-on-year to HK\$7,795.2 million (2024: HK\$8,095.3 million). Gross profit margin dropped 0.5% to 28.4% (2024: 28.9%).

As for other income, income derived from sub-leases and others income decreased by HK\$35.2 million (2024: decreased by HK\$10.8 million). Meanwhile, government grants received decreased by HK\$7.0 million to HK\$0.4 million (2024: HK\$7.4 million) and other income resulted in an overall decrease by 8.8% as compared with last year.

For operating expenses during the year under review, the Group's staff cost decreased by 12.1% and its ratio to revenue decreased slightly to 10.9% (2024: 11.9%). Expenses related to leases decreased by 5.1% and the ratio of expenses to revenue increased to 12.7% (2024: 12.9%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, increased by 1.2% year-on-year and the ratio of other expenses to revenue was 13.5% (2024: 12.8%).

Included in other gains and losses, amongst others, was exchange gain of HK\$24.9 million (2024: exchange loss of HK\$5.9 million). In addition, impairment loss in respect of property, plant and equipment of HK\$0.2 million (2024: HK\$2.2 million) was recognised in the year.

Due to the above changes, loss attributable to owners of the Company for the year was HK\$324.4 million (2024: loss of HK\$338.1 million), representing a decrease in loss by HK\$13.7 million.

The Group's adjusted EBITDA¹ for the year was loss of HK\$283.7 million (2024: loss of HK\$246.7 million), loss increased by HK\$37.0 million mainly due to the decrease in revenue.

The Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant and does not recommend a final dividend (2024 Final: HK\$ nil) for the year ended 31 December 2025.

During the year, capital expenditure for opening new stores and store renovation in Hong Kong and Chinese Mainland and the upgrade of information technology systems amounted to HK\$183.4 million.

The Group also entered into new lease agreements and lease modifications in the year and recognised additional right-of-use assets of HK\$382.1 million (2024: HK\$970.0 million).

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK\$608.8 million as at 31 December 2025 (2024: HK\$830.6 million). As at 31 December 2025, the gearing ratio (which is calculated on the basis of loan from ultimate holding company divided by total deficit) was -52.98% (2024: -53.32%).

As at year end date, deposits of HK\$36.1 million (2024: HK\$36.8 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$7.2 million (2024: HK\$7.0 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

As at 31 December 2025, the Group's current liabilities exceeded its current assets by HK\$1,560.1 million (2024: net current liabilities of HK\$1,199.3 million). The directors consider that the Group has sufficient financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

As at 31 December 2025, the inter-company loan due to its immediate and ultimate holding company amounted to HK\$416.4 million, bearing interest rate at 2.50% to 2.55% per annum and will be repayable on 28 February 2026. After the year ended 31 December 2025, the Company entered into an agreement with its ultimate holding company to extend the maturity date of loans from 28 February 2026 to 28 February 2027. The loan is unsecured and unguaranteed.

As at 31 December 2025, the Group did not have any significant investments accounting for more than 5% of the Group's total assets. The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

During the year ended 31 December 2025, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies. There was no specific plan for material investments or capital assets as at 31 December 2025.

The Group 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.

Exchange rate fluctuation had no material impact on the Group's retail business during the year ended 31 December 2025 as less than 5% of the Group's total purchases were settled in foreign currencies other than the functional currencies in Hong Kong and in the PRC. The Group did not have a foreign currency hedging policy and will consider entering into hedging instruments should the need arises.

At 31 December 2025, the Group's capital commitments amounted to HK\$11.8 million. The Group had no contingent liabilities at 31 December 2025.

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

Reconciliation of Adjusted EBITDA	FY2025	FY2024
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year	(354,054)	(340,721)
Adjusting items for EBITDA		
Income tax expense	2,594	2,187
Depreciation of investment properties	73,016	64,862
Depreciation of property, plant and equipment	140,072	135,126
Depreciation of rights-of-use assets	654,017	676,758
Interest on lease liabilities	210,044	214,798
Investment income	(8,813)	(16,715)
Interest income from rental deposits	(12,807)	(11,023)
Other gains and losses	(21,015)	(2,844)
Finance costs	8,190	1,236
Items for Adjusted EBITDA		
Repayment of lease liabilities (included in consolidated cash flow statement)*	(764,925)	(755,518)
Interest on lease liabilities*	(210,044)	(214,798)
Adjusted EBITDA disclosed	<u>(283,725)</u>	<u>(246,652)</u>

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

HUMAN RESOURCES

As at 31 December 2025, the Group had approximately 4,998 full-time and 3,767 part-time employees in Hong Kong and the Chinese Mainland. Under the “Everything we do, we do for our customers” credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group’s ultimate goal is to build AEON into a brand that benefits all customers.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below are the management discussion and analysis of the Group for the years ended 31 December 2023, 2024 and 2025. For the purpose of this circular, the financial information in respect of the Group is derived from the audited consolidated financial statements of the Group for the years ended 31 December 2023, 2024 and 2025.

For the year end 31 December 2023

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

Hong Kong Operations

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

In terms of store network, the Group continued to promote its small specialty store business and opened a new Daiso Japan store in Wong Tai Sin, offering products that articulate “high quality, diversity and uniqueness”. In June 2023, the Group opened two “KOMEDA’S Coffee” branches in Tuen Mun and Tsim Sha Tsui to provide customers with “the most relaxing and leisurely place” to enjoy the great taste of Nagoya. Such a move has also helped to accelerate the development of AEON Hong Kong’s specialty restaurant chain business. In addition, the Group made several new endeavours during the year. Aside from opening a pop-up store in Mong Kok, it introduced new tenants such as “SUKIYA” and “GYU SHIGE”, in the hope of attracting more customers with brand new impressions and experiences and improving business performance.

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

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

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

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

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

In view of this, the Group has formulated various strategies to respond to the situation. In view of the current business performance, in 2024, the Group will continue to: 1) increase the proportion of its own brands such as TOPVALU and HÓME CÓORDY; 2) leverage the advantages of the AEON Japan Group and various channels to introduce more well-known Japanese brands to Hong Kong stores, while expanding the range of products imported directly from Japan and Southeast Asia; 3) strengthen the development of Living PLAZA by AEON, Daiso Japan, Mono Mono and KOMEDA’S Coffee in order to give full play to the Group’s synergies and increase the overall profit margin more effectively; and 4) further expand “Net Super” online business to enhance the competitiveness of online businesses.

In terms of internal management, in 2024, the Group will continue to review the workflow and performance of each division to eliminate unnecessary procedures so as to make more effective use of resources and enhance operational efficiency and productivity. In addition, the Group will continue to promote digital transformation, such as expanding the application of Electronic Price Tag, Self-service Checkout, “POS Express” and High-Speed Cash Recycler, with the support of “Mobile Assistant” and the delivery service of AEON App, to simplify the daily and back-end work of the stores, while providing customers with a more convenient and comfortable shopping experience.

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

Mainland China Operations

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

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

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

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

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

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

FINANCIAL REVIEW

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

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

For operating expenses during the year under review, the Group's staff cost decreased by 7.9% to HK\$1,013.1 million (2022: HK\$1,100.5 million) and its ratio to revenue increased slightly to 11.7% (2022: 11.5%). Expenses related to leases decreased by 7.2% and the ratio of expenses to revenue increased to 11.9% (2022: 11.6%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, decreased by 5.3% year-on-year and the ratio of other expenses to revenue was 12.2% (2022: 11.7%).

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

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

The Group's adjusted EBITDA¹ for the year was loss of HK\$157.8 million (2022: loss of HK\$60.8 million), increased by HK\$97.0 million mainly due to the decrease in revenue.

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

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

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

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

The Group 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.

Exchange rate fluctuation had no material impact on the Group's retail business during the year ended 31 December 2023 as less than 5% of the Group's total purchases were settled in foreign currencies other than the functional currencies in Hong Kong and in the PRC. The Group did not have a foreign currency hedging policy and will consider entering into hedging instruments should the need arises.

The Group's capital structure comprises wholly of equity capital without any bank borrowing throughout the year ended 31 December 2023.

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

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

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

As at 31 December 2023, the Group had no assets charged for bank guarantee or other purpose except pledged bank deposit of HK\$103.9 million and did not have any significant contingent liabilities. As at 31 December 2023, the Group did not have any significant investments accounting for more than 5% of the Group's total assets.

During the year ended 31 December 2023, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

The Group planned to invest approximately HK\$160 million in the year of 2024 for new store openings and store renovations, which will be financed by internal resources.

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

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

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

HUMAN RESOURCES

As at 31 December 2023, the Group had approximately 5,200 full-time and 3,700 part-time employees in Hong Kong and Mainland China. Under the “Everything we do, we do for our customers” credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. The Group recognises that employees are the cornerstone of the Company’s long-term development and success. Therefore, the Group will strengthen in-store training, provide learning and promotion opportunities, and further enhance its vitality and competitiveness. The Group’s remuneration policy aims to maintain an appropriate balance between business performance and long-term sustainable growth of the Group. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group’s ultimate goal is to build AEON into a brand that benefits all customers.

For the year end 31 December 2024

BUSINESS REVIEW

In 2024, the global political and economic landscapes went through significant adjustments. With weak external demand and rising geopolitical risks casting a shadow over the global economy, retail businesses in Hong Kong and mainland China faced unprecedented uncertainties amid a prevalently challenging market environment. Thus, the Group actively adjusted its business strategy and implemented a series of reforms to adapt to market changes.

Hong Kong Operations

In the past year, Hong Kong’s economic performance remained weak, with GDP amounting to US\$286 billion. The value of total retail sales for 2024 decreased by 7.3% against the same period last year. After pandemic control measures were lifted, the number of visitors to Hong Kong rebounded quickly. In 2024, Hong Kong welcomed 31.0% more visitors year-on-year, with non-mainland visitors up 44% relative to the previous year. However, the spending pattern of visitors to Hong Kong had changed fundamentally. They are no longer as enthusiastic about “having fine food, shopping, and entertainment” as before the pandemic. Instead, they show a strong interest in in-depth cultural tours. As such, total tourist spending has been increasing slower than expected. At the same time, convenient cross-border transportation has seen more Hong Kong residents travelling north to spend. That new trend to some extent has dampened the desire of local residents to spend money in Hong Kong, and correspondingly Hong Kong’s retail sector has been affected.

During the year, with the help of effective marketing strategies and product optimization, the Group enhanced the sales performance of its private brands such as TOPVALU, HÓME CÓORDY and PEACE FIT WARM/COOL. Based on in-depth analysis of consumer demand, the Group launched a number of fashionable and high-quality products, which helped enhance brand awareness and drove sales growth.

In terms of store network, during the year, the Group opened the first AEON STYLE store – AEON STYLE Tsuen Wan in the New Territories through renovation and upgrading, launching a Mono Mono store in North Point, and introducing AEON STYLE Kai Tak in Kai Tak, to provide customers with a richer range of lifestyle options. In addition to opening three KOMEDA’S Coffee branches in Tsuen Wan, Kai Tak and Kornhill, the Group opened the world’s first Japanese takeaway shop JELYCO DO By KOMEDA’S Coffee in Tsing Yi, to diversify its F&B offerings. Since opening, the new stores have been well-received by customers, with sales performance exceeding initial projections. To sustain its performance, the Group optimized overall internal management during the year. Regarding the stores, the Group carried out reforms involving store decoration, renovation and opening costs, effectively reducing related expenses. In addition, we also actively promoted and applied electronic equipment, such as introducing Electronic Price Tag in three stores and supermarkets, streamlining work processes. The utilization rate of the Self-checkout system in stores increased to 55%, which not only improved employees’ work efficiency, but have also enabled the Group to more accurately grasp market dynamics and consumer needs. By strengthening management, process optimization and control of recurring expenses, the Group was able to reduce various operating expenses and it improved staff productivity through structural reform and training.

During the year under review, revenue from Hong Kong operations declined by 9.5% to HK\$3,746.0 million (2023: HK\$4,140.9 million). The segment incurred loss of HK\$288.2 million (2023: loss of HK\$150.0 million) for the year.

The Hong Kong government has recently introduced a series of measures, such as organizing a cluster of mega events to attract more visitors, perfecting tourist visa policies, strengthening exchange and cooperation with Mainland China, upgrading urban infrastructure and raising public service standards, which have provided strong impetus for recovery of the retail and tourism industries. The Group will actively seize relevant opportunities and, with equal emphasis on innovation and pragmatism, launch an array of strategies with a view to enhancing performance.

Regarding product reform, the Group will step up promotion of popular product categories that possess growth potential, and boost the sales mix proportion of those products and its own brands to bolster their influence and market competitiveness. At the same time, the Group will open more small specialty stores, mainly represented by Mono Mono, which are expected to yield higher return on investment.

The Group will continue to ramp up investment in the e-commerce sector and continue to hasten digital transformation. It will also gradually introduce an AI loss prevention system in its Hong Kong stores, and conduct trial of smart shopping carts in selected stores to enhance customers' shopping experience and the safety of store operations. In addition, the Group will continue to expand the application of Electronic Price Tag and increase the utilization rate of Self-checkout system and automatic cash handling system, so as to provide greater convenience to customers and also boost its own operating performance with technology.

Moreover, the Group will improve internal management, conduct comprehensive reviews and reforms on existing systems, initiate structural reform projects and meticulous financial management and cost control to reduce expenses and raise operational efficiency and productivity.

Mainland China Operations

In 2024, China mainland's GDP grew by 5.0% compared with the previous year, but less than the 5.2% in 2023. Total retail sales of consumer goods increased by 3.5% year-on-year, and the GDP of Guangdong province increased by 3.5% over last year. The total retail sales of consumer goods in the province increased by 0.8% against the previous year, of which retail sales of goods grew by only 0.6%. Domestic consumption and the real estate market remaining sluggish had dragged down overall economic recovery.

During the year, the Group actively adjusted its store layout and carried out extensive revitalisation and renovation of the Guangzhou Baotai Store and Guangzhou Taiyangcheng store. It also opened two new stores – Zhongshan Fuyicheng store and Guangzhou Baixinstore. The sales performance of both stores met expectations, injecting new vitality into the Group's business expansion. Existing store structure was reviewed and key sales areas were created heeding customers' consumption patterns to enhance their offline consumption experience.

In terms of merchandise strategy, the Group analysed past data and focused on promoting key product categories, as a result, those products maintained strong growth with sales exceeding the levels of the same period last year. In addition, the Group was committed to developing new products. These products performed well in the market and met at ease sales and gross profit expectations.

The Group vigorously promoted digitalisation to improve operational efficiency. In the O2O realm, for example, it implemented online and offline integration to enhance customers' consumption experience and reduce marketing costs, reaping the initial benefit of digital transformation. The Group's own e-commerce platform also made significant progress, boasting an improved sales mix proportion, giving the Company's online business stronger yet competitiveness.

In addition, the Group actively expanded income from tenants and achieved its budget target by optimising its leasing strategy and improving service quality. Income from tenants exceeded the level of the same period last year.

Revenue from the Mainland China operations for the year was HK\$4,349.3 million (2023: HK\$4,552.0 million), a drop of 4.5% year-on-year. During the year, Mainland China business recorded loss of HK\$65.9 million (2023: loss of HK\$61.5 million).

Since the beginning of 2025, the economy and retail market in Mainland China has been complex and volatile. On top of navigating the challenges posed by escalating geopolitical risks on international trade, Mainland China also needs to deal with structural issues like people choosing to stay single and the aging population. That plus the more rational consumption behaviour of consumers have led to a persistent downturn in the retail store sector. Emerging business modes such as live-streaming e-commerce have also dealt a blow to the traditional retail industry, prompting the industry to accelerate digital investment and transformation, and realize comprehensive development of online and offline integration.

In response to the dynamic market environment and challenges, the Group is dedicated to improving its competitive edge. Along with expanding the sales mix proportion of its own brands and popular products, the Group will also continuously evaluate its product portfolio to improve gross profit. In addition, the Group will continue to build and optimise core sales floors, such as trendy play, children's toy, fruit, bakery, and pet sales areas to boost the appeal of the stores. The Group will also gradually introduce an AI loss prevention system and intelligent pricing system in its mainland stores, and conduct trials deploying smart shopping carts in select stores to enhance customers' shopping experience and the efficiency of store operations.

The Group plans to open 8 new stores in the GBA in 2025, including stand-alone supermarkets in Guangzhou, Foshan, Shenzhen and Jiangmen to meet the diverse needs of local consumers. It will also push to increase income from and foster win-win development with tenants by improving tenancy structure and tenant service quality. At the same time, the Group will advance workflow reform in 2025 to raise employees' work efficiency and satisfaction, so as to lay a solid foundation for its development in the years ahead.

FINANCIAL REVIEW

In the year 2024, the Group's revenue decreased by 6.9% year-on-year to HK\$8,095.3 million (2023: HK\$8,692.9 million). Gross profit margin dropped 0.3% to 28.9% (2023: 29.2%).

As for other income, income derived from sub-leases and others income decreased by HK\$10.8 million (2023: increased by HK\$27.6 million). However, government grants received increased by HK\$6.7 million to HK\$7.4 million (2023: HK\$0.7 million) and other income resulted in an overall decrease by 0.9% as compared with last year.

For operating expenses during the year under review, the Group's staff cost decreased by 4.7% and its ratio to revenue increased slightly to 11.9% (2023: 11.7%). Expenses related to leases increased by 1.3% and the ratio of expenses to revenue increased to 12.9% (2023: 11.9%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, decreased by 2.4% year-on-year and the ratio of other expenses to revenue was 12.8% (2023: 12.2%).

Included in other gains and losses, amongst others, was exchange loss of HK\$5.9 million (2023: exchange gain of HK\$6.1 million). In addition, impairment loss in respect of property, plant and equipment of HK\$2.2 million (2023: HK\$2.2 million) was recognised in the year.

Due to the above changes, loss attributable to owners of the Company for the year was HK\$338.1 million (2023: loss of HK\$188.7 million), representing an increase in loss by HK\$149.4 million.

The Group's adjusted EBITDA¹ for the year was loss of HK\$246.7 million (2023: loss of HK\$157.8 million), increased by HK\$88.9 million mainly due to the decrease in revenue.

The Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant and does not recommend a final dividend (2023 Final: HK\$ nil) for the year ended 31 December 2024.

During the year, capital expenditure for opening new stores and store renovation in Hong Kong and Mainland China and the upgrade of information technology systems amounted to HK\$155.4 million.

The Group also entered into new lease agreements and lease modifications in the year and recognised additional right-of-use assets of HK\$970.0 million (2023: HK\$574.6 million).

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK\$830.6 million as at 31 December 2024 (2023: HK\$1,149.6 million). As at 31 December 2024, the gearing ratio (which is calculated on the basis of loan from ultimate holding company divided by total deficit) was -53.32% (2023: nil). The increase of gearing ratio is due to the new borrowing from AEON Co, the ultimate holding company of the Group, amounting to HK\$229.7 million which further strengthened the group financial resources to finance future business operations.

As at year end date, deposits of HK\$36.8 million (2023: HK\$97.2 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$7.0 million (2023: HK\$6.7 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

As at 31 December 2024, the Group's current liabilities exceeded its current assets by HK\$1,199.3 million (2023: net current liabilities of HK\$683.7 million). The directors consider that the Group has sufficient financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

As at 31 December 2024, the inter-company loan due to its immediate and ultimate holding company amounted to HK\$229.7 million, bearing interest rate at 1.89% per annum and will be repayable on 30 June 2025.

As at 31 December 2024, the Group did not have any significant investments accounting for more than 5% of the Group's total assets. The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

During the year ended 31 December 2024, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies. There was no specific plan for material investments or capital assets as at 31 December 2024.

The Group 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.

Exchange rate fluctuation had no material impact on the Group's retail business during the year ended 31 December 2024 as less than 5% of the Group's total purchases were settled in foreign currencies other than the functional currencies in Hong Kong and in the PRC. The Group did not have a foreign currency hedging policy and will consider entering into hedging instruments should the need arises.

At 31 December 2024, the Group's capital commitments amounted to HK\$29.5 million. The Group had no contingent liabilities at 31 December 2024.

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

Reconciliation of Adjusted EBITDA	FY2024	FY2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year	(340,721)	(187,802)
Adjusting items for EBITDA		
Income tax expenses	2,187	2,522
Depreciation of investment properties	64,862	65,878
Depreciation of property, plant and equipment	135,126	147,012
Depreciation of rights-of-use assets	676,758	702,484
Interest on lease liabilities	214,798	188,676
Investment income	(16,715)	(26,137)
Interest income from rental deposits	(11,023)	(11,215)
Other gain and losses	(2,844)	(14,505)
Finance cost	1,236	–
Items for Adjusted EBITDA		
Repayment of lease liabilities (included in consolidated cash flow statement)*	(755,518)	(836,048)
Interest on lease liabilities*	<u>(214,798)</u>	<u>(188,676)</u>
Adjusted EBITDA disclosed	<u><u>(246,652)</u></u>	<u><u>(157,811)</u></u>

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

HUMAN RESOURCES

As at 31 December 2024, the Group had approximately 4,900 full-time and 3,900 part-time employees in Hong Kong and Mainland China. Under the “Everything we do, we do for our customers” credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build AEON into a brand that benefits all customers.

For the year ended 31 December 2025, please refer to the paragraph headed “FINANCIAL AND TRADING PROSPECT OF THE GROUP” in this Appendix.

The following is the text of a report set out on pages II-1 to II-59, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF GUANGDONG AEON TEEM CO., LIMITED TO THE DIRECTORS OF AEON STORES (HONG KONG) CO., LIMITED

Introduction

We report on the historical financial information of Guangdong AEON Teem Co., Limited (the "Target Company") set out on pages II-4 to II-59, which comprises the statements of financial position of the Target Company as at 31 December 2023, 2024 and 2025 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for each of the years ended 31 December 2023, 2024 and 2025 (the "Relevant Periods"), and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-59 forms an integral part of this report, which has been prepared for inclusion in the circular of Aeon Stores (Hong Kong) Co., Limited (the "Company") dated 29 April 2026 (the "Circular") in connection with the acquisition of 35% equity interests in the Target Company.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Company as defined on page II-4, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2023, 2024 and 2025 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Emphasis of matter

We draw attention to Note 1 to the Historical Financial Information, which describes the joint venture arrangement between the shareholders of the Target Company is set to expire on 30 June 2026 which shall be subject to further negotiation between the shareholders of the Target Company based on whether the transfer of the 35% equity interests held by Guangdong Yuehai Teemall Department Stores Holdings Limited would be completed by then. Our opinion is not modified in respect of this matter.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

KPMG*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

29 April 2026

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2023	2024	2025
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	3,471,508	3,477,927	3,456,207
Other income	6	170,142	184,338	170,472
Investment income	7	12,990	10,280	6,071
Interest income from rental deposits		1,084	940	846
Purchase of goods and changes in inventories		(2,693,041)	(2,695,952)	(2,693,104)
Staff costs		(324,801)	(330,530)	(342,233)
Depreciation of investment properties	17	(16,796)	(17,974)	(17,350)
Depreciation of property, plant and equipment	14	(57,368)	(54,890)	(60,286)
Depreciation of right-of-use assets	15	(135,844)	(133,252)	(125,990)
Leases expenses		(31,932)	(31,490)	(29,275)
Other expenses	8	(351,341)	(358,642)	(381,298)
Pre-operating expenses	9	(3,512)	(3,478)	(8,564)
Other gains and losses	10	922	(196)	(2,853)
Interest on lease liabilities		(37,966)	(52,032)	(48,296)
Profit/(loss) before tax		4,045	(4,951)	(75,653)
Income tax expense	11	(1,840)	(1,961)	(2,096)
Profit/(loss) and other comprehensive income for the year	12	<u>2,205</u>	<u>(6,912)</u>	<u>(77,749)</u>

The accompanying notes form part of this Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION

		2023	2024	2025
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	14	170,913	171,062	243,211
Right-of-use assets	15	755,793	712,520	881,756
Investment properties	17	116,477	119,241	140,247
Pledged bank deposits	18	12,510	24,340	27,795
Time deposits	24	6,190	4,990	2,690
Deferred tax assets	20	21,597	19,636	17,540
Rental and related deposits paid	21	15,793	9,690	13,342
		<u>1,099,273</u>	<u>1,061,479</u>	<u>1,326,581</u>
Current assets				
Inventories	22	310,056	312,882	291,484
Receivables, prepayments and deposits	21	42,538	37,699	33,685
Amounts due from related parties	23	13,106	23,811	22,697
Pledged bank deposits	18	9,004	750	1,350
Time deposits	24	329,940	291,157	189,300
Bank balances and cash	25	397,413	370,766	307,396
		<u>1,102,057</u>	<u>1,037,065</u>	<u>845,912</u>
Current liabilities				
Trade payables	26	429,098	408,825	390,292
Other payables, accrued charges and other liabilities	26	188,605	163,999	159,818
Lease liabilities	27	150,137	131,253	120,443
Contract liabilities	26	294,256	284,006	256,869
Amounts due to immediate holding company	28	8,138	7,836	7,711
Amounts due to related parties	28	8,601	8,249	10,094
Tax payable	19	171	171	171
		<u>1,079,006</u>	<u>1,004,339</u>	<u>945,398</u>

APPENDIX II**ACCOUNTANTS' REPORT OF AEON GD**

		2023	2024	2025
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net current assets/(liabilities)		<u>23,051</u>	<u>32,726</u>	<u>(99,486)</u>
Total assets less current liabilities		<u>1,122,324</u>	<u>1,094,205</u>	<u>1,227,095</u>
Non-current liabilities				
Rental deposits received and other liabilities	26	21,567	24,416	28,873
Lease liabilities	27	<u>825,703</u>	<u>802,628</u>	<u>1,008,810</u>
		<u>847,270</u>	<u>827,044</u>	<u>1,037,683</u>
Net assets		<u><u>275,054</u></u>	<u><u>267,161</u></u>	<u><u>189,412</u></u>
Capital and reserves				
Registered capital	29	247,156	247,156	247,156
Reserves		<u>27,898</u>	<u>20,005</u>	<u>(57,744)</u>
Total equity		<u><u>275,054</u></u>	<u><u>267,161</u></u>	<u><u>189,412</u></u>

The accompanying notes form part of this Historical Financial Information.

STATEMENTS OF CHANGES IN EQUITY

	Registered capital <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Accumulated losses/ retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2023	247,156	51,570	(25,877)	272,849
Profit and other comprehensive income for the year	–	–	2,205	2,205
Transfer of reserve	–	(30,682)	30,682	–
At 31 December 2023	<u>247,156</u>	<u>20,888</u>	<u>7,010</u>	<u>275,054</u>
At 31 December 2023 and 1 January 2024	247,156	20,888	7,010	275,054
Loss and other comprehensive income for the year	–	–	(6,912)	(6,912)
Dividend paid	–	–	(981)	(981)
At 31 December 2024	<u>247,156</u>	<u>20,888</u>	<u>(883)</u>	<u>267,161</u>
At 31 December 2024 and 1 January 2025	247,156	20,888	(883)	267,161
Loss and other comprehensive income for the year	–	–	(77,749)	(77,749)
At 31 December 2025	<u>247,156</u>	<u>20,888</u>	<u>(78,632)</u>	<u>189,412</u>

Statutory reserve is reserve required by the relevant PRC laws applicable to the Target Company.

The accompanying notes form part of this Historical Financial Information.

STATEMENTS OF CASH FLOWS

		2023	2024	2025
	Notes	RMB'000	RMB'000	RMB'000
Operating activities				
Profit/(loss) before tax		4,045	(4,951)	(75,653)
Adjustments for:				
Depreciation of investment properties	17	16,796	17,974	17,350
Depreciation of property, plant and equipment	14	57,368	54,890	60,286
Depreciation of right-of-use assets	15	135,844	133,252	125,990
Interest on lease liabilities		37,966	52,032	48,296
Interest income from rental deposits		(1,084)	(940)	(846)
Impairment loss recognised in respect of property, plant and equipment	10	1,967	1,963	145
Investment income	7	(12,990)	(10,280)	(6,071)
Loss on disposal/write-off of property, plant and equipment	10	2,188	315	134
(Write-back)/write-down of inventories	12	(955)	(329)	562
Gain on lease modifications	10	(4,918)	(2,083)	(1)
Loss allowance on rental deposits	10	–	–	2,581
Operating cash flows before movements in working capital		236,227	241,843	172,773
(Increase)/decrease in inventories		(7,369)	(2,497)	20,836
Decrease/(increase) in receivables, prepayments and deposits		3,882	8,558	(1,077)
Decrease/(increase) in amounts due from related parties		3,948	(10,565)	1,261
Increase/(decrease) in trade payables		40,015	(20,273)	(18,533)
Increase/(decrease) in other payables, accrued charges and other liabilities		3,511	(15,022)	(2,198)
Decrease in contract liabilities		(26,685)	(10,250)	(27,137)
Decrease in amount due to immediate holding company		(11)	(303)	(125)
(Decrease)/increase in amounts due to related parties		(4,859)	(352)	1,845

APPENDIX II
ACCOUNTANTS' REPORT OF AEON GD

	<i>Notes</i>	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Cash generated from operations		248,659	191,139	147,645
Interest on bank deposits and time deposits received		<u>11,443</u>	<u>11,867</u>	<u>6,701</u>
Net cash from operating activities		<u>260,102</u>	<u>203,006</u>	<u>154,346</u>
Investing activities				
Placement of pledged bank deposits		(3,430)	(7,783)	(5,237)
Withdrawal of pledged bank deposits		3,590	4,207	1,182
Purchase of property, plant and equipment		(44,702)	(64,050)	(130,241)
Net payment for rental deposits		(1,101)	(415)	(3,971)
Placement of time deposits		(300,590)	(291,207)	(529,350)
Withdrawal of time deposits		<u>180,000</u>	<u>331,190</u>	<u>633,507</u>
Net cash used in investing activities		<u>(166,233)</u>	<u>(28,058)</u>	<u>(34,110)</u>
Financing activities				
Dividend paid		–	(981)	–
Interest on lease liabilities		(37,966)	(52,032)	(48,296)
Repayments of lease liabilities		<u>(163,683)</u>	<u>(148,582)</u>	<u>(135,310)</u>
Net cash used in financing activities		<u>(201,649)</u>	<u>(201,595)</u>	<u>(183,606)</u>
Net decrease in cash and cash equivalents		(107,780)	(26,647)	(63,370)
Cash and cash equivalents at 1 January		<u>505,193</u>	<u>397,413</u>	<u>370,766</u>
Cash and cash equivalents at 31 December, represented by bank balances and cash		<u><u>397,413</u></u>	<u><u>370,766</u></u>	<u><u>307,396</u></u>

The accompanying notes form part of this Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL AND BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

Guangdong AEON Teem Co., Limited (the "Target Company") was established in the People's Republic of China (the "PRC") as a private limited liability company under the Company Law of the PRC. The immediate holding company is AEON Stores (Hong Kong) Co., Limited (the "Company"), which is incorporated in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The ultimate holding company of the Target Company is AEON Co., Ltd, which is incorporated in Japan and its shares are listed on the Tokyo Stock Exchange. The addresses of the registered office and principal place of business of the Target Company are Shop 113 & 114, Basement 1, Teem Plaza, 208 Tianhe Road, Tianhe District, Guangzhou City, Guangdong Province, the PRC.

The Target Company was established as a sino-foreign equity joint venture which is held as to 65% by the Company and 35% by Guangdong Yuehai Teemall Department Stores Holdings Limited (廣東粵海天河城百貨發展有限公司) ("Teemall Department Stores"), a PRC state-owned company pursuant to the joint venture agreement between the shareholders. Teemall Department Stores intends to transfer its equity interests of the Target Company and such transfer is to be conducted through public tender through the Assets and Equity Exchange ("Public Tender"), pursuant to the relevant laws and regulations in the PRC and the joint venture agreement between the shareholders. The Board of Directors of the Company has resolved to submit a bid to acquire the 35% equity interests held by Teemall Department Stores through participating in the Public Tender.

The joint venture agreement is set to expire on 30 June 2026 which shall be further negotiated between the shareholders of the Target Company based on whether the transfer of the 35% equity interests held by Teemall Department Stores would be completed by then.

During the Relevant Periods, the Target Company is principally engaged in the operation of retail stores in the PRC.

The statutory financial statements of the Target Company for the years ended 31 December 2023 and 2024, as prepared in accordance with relevant accounting principles and financial regulations applicable to the enterprises in the PRC. As of the date of this report, the statutory financial statements for the year ended 31 December 2025 is under preparation and not issued yet. The statutory auditor of the Target Company is KPMG Huazhen LLP, a CPA registered firm in the PRC.

The Historical Financial Information are presented in Renminbi ("RMB"), which is the functional currency of the Target Company.

Basis of preparation of financial statements

The Historical Financial Information presents the financial track record of the Target Company for the Relevant Periods and is prepared for the purposes of inclusion in a circular of AEON Stores (Hong Kong) Co., Limited to its shareholders for the acquisition of 35% equity interests in the Target Company, using the accounting policies which are applied consistently to all Relevant Periods presented in the Historical Financial Information.

The Historical Financial Information has been prepared based on accounting policies which conform HKFRS Accounting Standards issued by the HKICPA, which collective term includes all applicable individual Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Historical Financial Information are prepared on the historical cost basis except where stated otherwise in the material accounting policies.

The Target Company had net current liabilities of HK\$99,486,000 as at 31 December 2025. The directors of the Company have assessed the Target Company’s cash flow projections, which cover a period of twelve months from the date of this report and are of the opinion that the Target Company will have sufficient working capital to meet its liabilities and obligations as and when they fall due and to sustain its operations for the next twelve months from the date of this report. Consequently, the directors of the Company have prepared the Historical Financial Information on a going concern basis.

Material accounting policy information in preparing the Historical Financial Information is set out below.

2 APPLICATION OF HKFRS ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised HKFRS Accounting Standards. For the purpose of preparing this Historical Financial Information, the Target Company has adopted all applicable new and revised HKFRS Accounting Standards to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods.

Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of this report, the HKICPA has issued a number of new or amended standards, which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Target Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, <i>Financial instruments and HKFRS 7, Financial instruments: disclosures – Contracts referencing nature-dependent electricity</i>	1 January 2026
Amendments to HKFRS 9, <i>Financial instruments and HKFRS 7, Financial instruments: disclosures – Amendments to the classification and measurement of financial instruments</i>	1 January 2026
Annual improvements to HKFRS Accounting Standards – Volume 11	1 January 2026
HKFRS 18, <i>Presentation and disclosure in financial statements</i>	1 January 2027
HKFRS 19, <i>Subsidiaries without public accountability: disclosures</i>	1 January 2027

The Target Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements, except for HKFRS18, where the presentation and disclosure of the financial statements are expected to change.

3 MATERIAL ACCOUNTING POLICIES

Revenue from contracts with customers

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

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

Revenue arising from recognition of unutilised balances on aged prepaid cards

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

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

For contracts that contain more than one performance obligations (sales of goods and award credits for customers under the Target Company's customer loyalty scheme), the Target Company 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 Target Company would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Target Company estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Target Company 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 Target Company 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 Target Company 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 Target Company is an agent).

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

The Target Company 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 Target Company does not control the specified good or service provided by another party before that good or service is transferred to a customer. When the Target Company acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party to a customer.

Leases*Definition of a lease*

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

For contracts entered into or modified on or after the date of initial application, the Target Company 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 Target Company 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 Target Company 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 Target Company 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 Target Company; and
- an estimate of costs to be incurred by the Target Company 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.

Right-of-use assets in which the Target Company 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 Target Company presents right-of-use assets that do not meet the definition of investment property as a separate line item on the 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 Target Company 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 Target Company 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 Target Company under residual value guarantees;
- the exercise price of a purchase option if the Target Company is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Target Company 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.

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

Lease modifications

The Target Company 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 Target Company 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 Target Company 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 Target Company 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.

The Target Company as a lessor

Classification and measurement of leases

Leases for which the Target Company 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 Target Company 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 Target Company 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 Target Company 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.

Foreign currencies

In preparing the financial statements of the Target Company, 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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Company 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 Target Company 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 Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Pre-operating expenses

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

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 Accounting Standard 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 years ended 31 December 2023, 2024 and 2025. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company'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 financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

Construction in progress are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Target Company'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.

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 Target Company under operating leases.

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

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. A leased property which is recognised as a right-of-use asset is derecognised if the Target Company 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 Target Company 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 Target Company 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 Company 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 Company of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or Company 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.

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 Target Company compares the carrying amount of a Company of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that Company of cash-generating units, with the recoverable amount of the Target Company 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 Target Company 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 Target Company of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses in which the Target Company determines that there are sufficient evidence to conclude that the indicators of impairment no longer exist, the carrying amount of the asset (or cash-generating unit or a Company 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 Company of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

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

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

Provisions

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Company 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.

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 Company 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 Target Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a *business combination* to which HKFRS 3, Business Combinations applies.

(i) *Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment assessment of financial assets under HKFRS 9

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Target Company’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 Target Company always recognises lifetime ECL for trade receivables.

For all other instruments, the Target Company 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 Target Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Target Company 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 Target Company 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 Target Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

The Target Company 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 Target Company 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 Target Company, in full (without taking into account any collaterals held by the Target Company).

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;

- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-off policy*

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, 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 Target Company'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 Target Company in accordance with the contract and the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

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

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

Derecognition of financial assets

The Target Company 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 Target Company has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target 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 Target Company derecognises financial liabilities when, and only when, the Target Company'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 ACCOUNTING JUDGEMENTS AND ESTIMATE**(i) Critical accounting judgements in applying the Target Company's accounting policies**

In the process of applying the Target Company's accounting policies, management has made the following accounting judgement:

Determining the lease term

As explained in policy note 3, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Target Company, the Target Company evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Target Company to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Target Company's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Target Company's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(ii) Key sources of estimation uncertainty

In the application of the Target Company's accounting policies, which are described in note 3, the directors of the Target 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.

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 Target Company has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount which is higher of value in use and fair value less cost of disposal, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset and in the case of fair value less cost of disposal, income approach is used by referencing to recent market rents of comparable assets; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including growth rates, budgeted sales, gross margins and an appropriate discount rate in the cash flow projections and, market rents and market yield when determining the fair values. Changing the assumptions and estimates could materially affect the recoverable amounts. Furthermore, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to volatility in financial markets.

Details of the impairment assessment on property, plant and equipment, investment properties and right-of-use assets are disclosed in notes 16 and 17.

Net realisable value of inventories

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

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

5 REVENUE

Revenue represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the year. Revenue is recognised at a point in time when the customers obtain control of the goods.

(i) Disaggregation of revenue from contracts with customers

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Direct sales	3,297,385	3,310,455	3,305,656
Income from concessionaire sales	<u>174,123</u>	<u>167,472</u>	<u>150,551</u>
	<u><u>3,471,508</u></u>	<u><u>3,477,927</u></u>	<u><u>3,456,207</u></u>

(ii) Performance obligations for contracts with customers

Direct sales

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

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

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

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

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

Income from concessionaire sales

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

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

As at 31 December 2023, 2024 and 2025, 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 OTHER INCOME

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income from investment properties	94,290	101,097	97,825
Government grants	638	6,763	339
Management fee and other income from sub-leases	22,854	25,389	26,972
Platform collaboration income	38,301	38,853	32,144
Others	14,059	12,236	13,192
	<u>170,142</u>	<u>184,338</u>	<u>170,472</u>

During the years ended 31 December 2023, 2024 and 2025, the Target Company recognised government grants relating to subsidies granted by municipal governments in the PRC of RMB638,000, RMB6,763,000 and RMB339,000, respectively.

7 INVESTMENT INCOME

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest from bank and time deposits	<u>12,990</u>	<u>10,280</u>	<u>6,071</u>

8 OTHER EXPENSES

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advertising, promotion and selling expenses	94,676	103,290	105,633
Maintenance, repair and building management fees	91,420	96,078	98,642
Utilities expenses	61,702	56,824	63,942
Administrative expenses	98,856	99,010	109,178
Other expenses	4,687	3,440	3,903
	<u>351,341</u>	<u>358,642</u>	<u>381,298</u>

9 PRE-OPERATING EXPENSES

The amounts represent the set up costs for new stores. Included in pre-operating expenses for the years ended 31 December 2023, 2024 and 2025 are staff costs of RMB3,512,000 RMB3,478,000 and RMB8,564,000, respectively.

10 OTHER GAINS AND LOSSES

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange gain/(loss), net	159	(1)	6
Impairment loss recognised in respect of property, plant and equipment	(1,967)	(1,963)	(145)
Loss on disposal/write-off of property, plant and equipment	(2,188)	(315)	(134)
Gain on lease modifications	4,918	2,083	1
Loss allowance on rental deposits	-	-	(2,581)
	<u>922</u>	<u>(196)</u>	<u>(2,853)</u>

11 INCOME TAX EXPENSE

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The charges comprise:			
Deferred tax (<i>note 20</i>)			
Origination and reversal of temporary differences	1,840	1,961	2,096
Income tax expense for the year	<u>1,840</u>	<u>1,961</u>	<u>2,096</u>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25% for years ended 31 December 2023, 2024 and 2025. No provisions for Enterprise Income Tax was made as the Target Company has sustained losses or no assessable profits subject to Enterprise Income Tax for the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled from the profit/(loss) before tax as follows:

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before tax	4,045	(4,951)	(75,653)
Notional tax on profit/(loss) before tax, calculated at the rates applicable in the relevant tax jurisdictions	1,011	(1,238)	(18,913)
Tax effect of expenses not deductible for tax purpose	609	405	415
Tax effect of tax losses not recognised	4,735	5,239	18,095
Tax effect of temporary difference not recognised	(4,515)	(2,445)	2,499
Income tax expense	<u>1,840</u>	<u>1,961</u>	<u>2,096</u>

12 PROFIT/(LOSS) FOR THE RELEVANT PERIODS

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) for the Relevant Periods have been arrived at after charging/(crediting):			
Expenses relating to			
– short-term leases and leases of low-value assets	4,797	5,424	4,621
– variable lease payment (<i>Note</i>)	27,135	26,066	24,654
	31,932	31,490	29,275
Contributions to defined contribution schemes	42,117	44,159	50,434
Gross rental income from investment properties			
– fixed	(90,927)	(98,361)	(95,386)
– variable (<i>Note</i>)	(3,363)	(2,736)	(2,439)
Less: direct operating expenses incurred for investment properties that generated rental income during the year	24,173	25,351	28,097
	(70,117)	(75,746)	(69,728)
Cost of inventories recognised as an expense (Write-back)/write-down of inventories (included in “purchase of goods and changes in inventories”)	2,693,041	2,695,952	2,693,104
	(955)	(329)	562

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.

13 DIVIDENDS

The Board of Directors recommended the payment of final dividend for the year ended 31 December 2024 of RMB981,000. The Board of directors did not recommend payments of any dividend for the years ended 31 December 2023 and 2025.

14 PROPERTY, PLANT AND EQUIPMENT

	Building fixtures RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2023	479,546	224,322	1,670	5,321	710,859
Additions	40	1,531	-	47,607	49,178
Transfer	22,944	12,769	-	(35,713)	-
Disposals/write-off	(43,755)	(10,542)	(221)	-	(54,518)
At 31 December 2023	458,775	228,080	1,449	17,215	705,519
Additions	-	8,834	215	48,268	57,317
Transfer	34,100	27,702	-	(61,802)	-
Disposals/write-off	(23,932)	(8,351)	(222)	-	(32,505)
At 31 December 2024	468,943	256,265	1,442	3,681	730,331
Additions	1,962	25,505	439	104,808	132,714
Transfer	51,016	53,195	-	(104,211)	-
Disposals/write-off	(42,751)	(19,050)	(467)	-	(62,268)
At 31 December 2025	479,170	315,915	1,414	4,278	800,777
Depreciation and impairment					
At 1 January 2023	356,345	169,586	1,670	-	527,601
Provided for the year	36,368	21,000	-	-	57,368
Eliminated on disposal/write-off	(41,600)	(10,509)	(221)	-	(52,330)
Impairment losses recognised (note 16)	1,967	-	-	-	1,967
At 31 December 2023	353,080	180,077	1,449	-	534,606
Provided for the year	33,628	21,244	18	-	54,890
Eliminated on disposal/write-off	(23,743)	(8,225)	(222)	-	(32,190)
Impairment losses recognised (note 16)	1,963	-	-	-	1,963
At 31 December 2024	364,928	193,096	1,245	-	559,269
Provided for the year	33,003	27,159	124	-	60,286
Eliminated on disposal/write-off	(42,741)	(18,926)	(467)	-	(62,134)
Impairment losses recognised (note 16)	8	137	-	-	145
At 31 December 2025	355,198	201,466	902	-	557,566

APPENDIX II**ACCOUNTANTS' REPORT OF AEON GD**

	Building fixtures <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Carrying values					
At 31 December 2023	<u>105,695</u>	<u>48,003</u>	<u>-</u>	<u>17,215</u>	<u>170,913</u>
At 31 December 2024	<u>104,015</u>	<u>63,169</u>	<u>197</u>	<u>3,681</u>	<u>171,062</u>
At 31 December 2025	<u>123,972</u>	<u>114,449</u>	<u>512</u>	<u>4,278</u>	<u>243,211</u>

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 eight years or, where shorter, the term of the relevant lease
Furniture, fixtures and equipment	20% per annum
Motor vehicles	20% per annum

15 RIGHT-OF-USE ASSETS

	Leased properties <i>RMB'000</i>
As at 31 December 2023	
Carrying amount	<u>755,793</u>
As at 31 December 2024	
Carrying amount	<u>712,520</u>
As at 31 December 2025	
Carrying amount	<u>881,756</u>

	Leased properties RMB'000		
For the year ended 31 December 2023			
Depreciation charge			<u>135,844</u>
For the year ended 31 December 2024			
Depreciation charge			<u>133,252</u>
For the year ended 31 December 2025			
Depreciation charge			<u>125,990</u>
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expense relating to short-term leases	1,733	3,008	2,258
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	3,064	2,416	2,363
Variable lease payments not included in the measurement of lease liabilities	27,134	26,066	24,654
Total cash outflow for leases	233,580	232,104	212,881
Additions to right-of-use assets	<u>47,963</u>	<u>25,314</u>	<u>50,980</u>

The Target Company leases retail stores, warehouse, office, staff quarters, office equipment and advertising billboards for its operations. Lease contracts are entered into for fixed term of 1 to 20 year for the years ended 31 December 2023, 2024 and 2025, respectively 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 Target Company applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, following by a lease modification to shorten the lease term, the Target Company had derecognised right-of-use assets for the years ended 31 December 2023, 2024 and 2025 of RMB12,796,000, RMB4,204,000 and RMB12,000, respectively and related lease liabilities of RMB17,714,000, RMB6,287,000 and RMB13,000, respectively, resulting into a gain on lease modification amounting to RMB4,918,000, RMB2,083,000 and RMB1,000 recognised in profit or loss respectively.

The Target Company regularly entered into short-term leases for staff quarters, office equipment and advertising billboards. As at 31 December 2023, 2024 and 2025, the portfolio of short-term leases is similar to the portfolio of short-term leases entered during the Relevant Periods.

Leases of retail stores are either with only fixed lease payments or contain variable lease payment for the years ended 31 December 2023, 2024 and 2025 that are based on higher of 2.0% to 4.5% of 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 the PRC where the Target Company operates. The amount of fixed and variable lease payments paid/payable to relevant lessors (excluding those relating to short-term leases and low-value assets) during the Relevant Periods are shown below:

For the year ended 31 December 2023

	Number of premises	Fixed payments <i>RMB'000</i>	Variable payments <i>RMB'000</i>	Total payments <i>RMB'000</i>
Retail stores, warehouse and office without variable lease payments	13	148,529	–	148,529
Retail stores with variable lease payments	20	53,120	27,134	80,254
	<u>33</u>	<u>201,649</u>	<u>27,134</u>	<u>228,783</u>

For the year ended 31 December 2024

	Number of premises	Fixed payments <i>RMB'000</i>	Variable payments <i>RMB'000</i>	Total payments <i>RMB'000</i>
Retail stores, warehouse and office without variable lease payments	13	143,272	–	143,272
Retail stores with variable lease payments	22	57,342	26,066	83,408
	<u>35</u>	<u>200,614</u>	<u>26,066</u>	<u>226,680</u>

For the year ended 31 December 2025

	Number of premises	Fixed payments <i>RMB'000</i>	Variable payments <i>RMB'000</i>	Total payments <i>RMB'000</i>
Retail stores, warehouse and office without variable lease payments	13	118,720	–	118,720
Retail stores with variable lease payments	30	64,886	24,654	89,540
	43	183,606	24,654	208,260

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

The Target Company has extension and/or termination options in a number of leases. These are used to maximise operational flexibility in terms of managing the assets used in the Target Company's operations. The majority of extension and termination options held are exercisable only by the Target Company and not by the respective lessors.

The Target Company 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 Target Company is not reasonably certain to exercise and (ii) termination options in which the Target Company is not reasonably certain not to exercise is summarised below:

	2023		2024		2025	
	Lease liabilities recognised <i>RMB'000</i>	Potential future lease payments not included in lease liabilities (undiscounted) <i>RMB'000</i>	Lease liabilities recognised <i>RMB'000</i>	Potential future lease payments not included in lease liabilities (undiscounted) <i>RMB'000</i>	Lease liabilities recognised <i>RMB'000</i>	Potential future lease payments not included in lease liabilities (undiscounted) <i>RMB'000</i>
Retail stores, warehouse and office	975,840	456,850	933,881	481,586	1,129,253	374,569

Restrictions or covenants on leases

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in notes 27 and 35.

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

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

For the cash-generating units which the recoverable amount was based on value in use, the calculations use cash flow projections based on the latest budgets approved by the management covering the unexpired lease terms of the relevant stores with a pre-tax discount rate for the years ended 31 December 2023, 2024 and 2025 of 9.0%, 9.91% and 8.42% respectively. Cash flow projections during the budget period were based on the projected revenue and expected gross margins and the budgeted revenue growths and margins have been determined based on past performance and management's expectations for the future changes in the market.

For the cash-generating units which the recoverable amount was based on fair value less costs of disposal, the fair value has been arrived at based on a valuation carried out by Jones Lang Lasalle Corporation Appraisal and Advisory Limited for the years ended 31 December 2023, 2024 and 2025, an independent third party qualified valuer which has appropriate professional qualifications and recent experience in the valuations of similar assets in the relevant locations.

The fair value of right-of-use assets, upon which the recoverable amounts were based, were classified at level 3 valuations at 31 December 2023, 2024 and 2025. There was no transfer between levels during the years ended 31 December 2023, 2024 and 2025.

	Level 3		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Right-of-use assets	326,700	146,900	555,800

The fair value was determined based on the income approach, where the market rentals of all lettable units of the right-of-use assets included in the cash-generating units are assessed and discounted at the market yield for the years ended 31 December 2023, 2024 and 2025 of a range of 5.0% – 5.5% per annum expected by investors on similar type of assets. The market rentals are assessed by reference to the rentals achieved in the lettable units of the assets as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar retail stores in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Target Company's cash-generating units.

Based on the result of the assessment, management of the Target Company determined that the recoverable amounts of some cash-generating units are lower than their carrying amounts. The impairment amount has been allocated to each category of the impaired cash-generating units, which mainly comprise property, plant and equipment, and right-of-use assets, such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the allocation, impairment loss recognised against the carrying amount of property, plant and equipment are set as below:

	2023 RMB'000	2024 RMB'000	2025 RMB'000
Impairment loss recognised in respect of property, plant and equipment	<u>1,967</u>	<u>1,963</u>	<u>145</u>

17 INVESTMENT PROPERTIES

The Target Company leases out retail stores under operating leases with rentals payable monthly. The leases typically run for an initial period of one to fifteen years for the years ended 31 December 2023, 2024 and 2025. The leases of retail stores contain variable lease payment for the years ended 31 December 2023, 2024 and 2025 that are based on 5 to 20%, 6% to 20% and 5% to 20% of sales and minimum annual lease payment that are fixed over the lease term, respectively.

For the years ended 31 December 2023, 2024 and 2025, cash outflow for leases of RMB22,654,000, RMB25,292,000 and RMB22,893,000, respectively, represented the amounts paid for leased properties under sub-leases.

	Leased properties RMB'000
Cost	
At 1 January 2023	115,934
Additions	76,340
Reclassification from right-of-use assets (<i>Note</i>)	<u>10,030</u>

	Leased properties RMB'000
At 31 December 2023	202,304
Additions	10,906
Reclassification from right-of-use assets (<i>Note</i>)	<u>20,269</u>
At 31 December 2024	233,479
Additions	21,425
Reclassification to right-of-use assets (<i>Note</i>)	<u>(7,971)</u>
At 31 December 2025	<u>246,933</u>
Depreciation	
At 1 January 2023	62,492
Provided for the year	16,796
Eliminated on reclassification from right-of-use assets (<i>Note</i>)	<u>6,539</u>
At 31 December 2023	85,827
Provided for the year	17,974
Eliminated on reclassification from right-of-use assets (<i>Note</i>)	<u>10,437</u>
At 31 December 2024	114,238
Provided for the year	17,350
Eliminated on reclassification to right-of-use assets (<i>Note</i>)	<u>(24,902)</u>
At 31 December 2025	<u>106,686</u>
Carrying values	
As 31 December 2023	<u>116,477</u>
At 31 December 2024	<u>119,241</u>
At 31 December 2025	<u>140,247</u>

The fair value of the Target Company's investment properties at 31 December 2023, 2024 and 2025 was RMB422,249,000, RMB409,174,000 and RMB423,100,000, respectively. The fair value has been arrived at based on a valuation carried out by Jones Lang Lasalle Corporation Appraisal and Advisory Limited for the years ended 31 December 2023, 2024 and 2025, an independent third party qualified valuer which has appropriate professional qualifications and recent experience in the valuations of similar properties in the relevant locations.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for similar 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 the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Target Company'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 Target Company's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	2023		2024		2025	
	Carrying amount	Fair value at Level 3 hierarchy	Carrying amount	Fair value at Level 3 hierarchy	Carrying amount	Fair value at Level 3 hierarchy
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Retail stores	<u>116,477</u>	<u>422,249</u>	<u>119,241</u>	<u>409,174</u>	<u>140,247</u>	<u>423,100</u>

Note: For the years ended 31 December 2023, 2024 and 2025, the carrying amount of investment properties of RMB3,491,000, RMB9,832,000 and RMB16,951,000, respectively, has been transferred from/(to) right-of-use assets respectively because of the change of use by the Target Company for its own operation respectively.

18 PLEDGED BANK DEPOSITS

Bank deposits were pledged for the following purpose:

	2023		2024		2025	
	Non-current RMB'000	Current RMB'000	Non-current RMB'000	Current RMB'000	Non-current RMB'000	Current RMB'000
As guarantee to landlords for rental deposits	12,510	9,004	24,340	750	27,795	1,350

Details of credit risk are set out in note 35.

19 CURRENT TAXATION

Current tax payable represents the provision for the PRC tax of RMB171,000 at 31 December 2023, 2024 and 2025.

20 DEFERRED TAXATION

The following are the components of deferred tax assets/(liabilities) recognised and movements thereon during the years ended 31 December 2023, 2024 and 2025:

	Right-of-use assets RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2023	(125,573)	157,396	(8,386)	23,437
Credited/(charged) to profit or loss	(91,430)	86,563	3,027	(1,840)
At 31 December 2023	(217,003)	243,959	(5,359)	21,597
(Charged)/credited to profit or loss	9,953	(10,490)	(1,424)	(1,961)
At 31 December 2024	(207,050)	233,469	(6,783)	19,636
(Charged)/credited to profit or loss	(47,377)	38,498	6,783	(2,096)
At 31 December 2025	(254,427)	271,967	-	17,540

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

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Deferred tax assets	<u>21,597</u>	<u>19,636</u>	<u>17,540</u>

(a) Deferred tax assets not recognised

As at 31 December 2023, 2024 and 2025, the Target Company had deductible temporary differences of RMB225,932,000, RMB237,103,000 and RMB319,301,000, respectively which no deferred tax asset is recognised in the statements of financial position due to the unpredictability of future profit streams for the Target Company. Included in the balance are unused tax losses of RMB80,171,000, RMB101,125,000 and RMB173,427,000 at 31 December 2023, 2024 and 2025, respectively and other deductible temporary differences of RMB145,761,000 RMB135,978,000 and RMB145,874,000 at 31 December 2023, 2024 and 2025, respectively. The unused tax losses will expire as follow:

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
To be expired by:			
31 December 2024	–	N/A	N/A
31 December 2025	–	–	N/A
31 December 2026	42,925	42,925	42,925
31 December 2027	18,306	18,306	18,306
31 December 2028	18,940	18,940	18,940
31 December 2029	N/A	20,954	20,878
31 December 2030	<u>N/A</u>	<u>N/A</u>	<u>72,378</u>

21 RECEIVABLES, PREPAYMENTS AND DEPOSITS

The Target Company's accounts receivable arises from retail sales transactions settled by credit cards or other electronic payment methods. The average settlement period for the proceeds receivable from those credit cards and other electronic payments service providers is 3 days. As at 31 December 2023, 2024 and 2025, based on the ageing of accounts receivable as determined based on invoice date, balances due within 30 days were RMB23,010,000, RMB15,059,000 and RMB13,271,000 respectively, and the remaining balances are due over 30 days. There are no significant overdue balances of those accounts receivable at the end of the respective reporting period and no default is expected.

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

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable	24,088	18,035	14,240
Rental and related deposits paid	16,128	17,461	15,773
Other receivables, prepayments and other deposits	18,115	11,893	17,014
	<u>58,331</u>	<u>47,389</u>	<u>47,027</u>
Less: Rental and related deposits paid under non-current assets	<u>(15,793)</u>	<u>(9,690)</u>	<u>(13,342)</u>
Receivables, prepayments and deposits	<u><u>42,538</u></u>	<u><u>37,699</u></u>	<u><u>33,685</u></u>

Details of credit risk are set out in note 35

22 INVENTORIES

Inventories represent merchandise held for retail sale.

During the Relevant Periods, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Target Company has written back inventories of RMB955,000 and RMB329,000 for the years ended 31 December 2023 and 2024, respectively, and has written down inventories of RMB562,000 for the year ended 31 December 2025, to their net realisable values and included in "Purchases of goods and changes in inventories".

23 AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties are trade-related, unsecured, interest free and with credit term of 15 days for the years ended 31 December 2023, 2024 and 2025. The amounts have an age of 15 to 30 days as at 31 December 2023, 2024 and 2025 since the invoice date and not yet due at the end of the respective reporting periods.

Details of credit risk are set out in note 35.

24 TIME DEPOSITS

As at 31 December 2023, 2024 and 2025, time deposits represented deposits denominated in RMB amounting to RMB336,130,000, RMB296,147,000 and RMB191,990,000, respectively, with an original maturity for more than three months. For the years ended 31 December 2023, 2024 and 2025, the average effective interest rate of those time deposits denominated in RMB is 2.46%, 2.07% and 1.67%, respectively, per annum.

As at 31 December 2023, 2024 and 2025, the deposits would mature within one year from the end of the respective reporting period except for the time deposits of RMB6,190,000, RMB4,990,000 and RMB2,690,000, respectively, which would mature after one year from the end of the respective reporting period. Excluding the time deposit of RMB6,190,000, RMB4,990,000 and RMB2,690,000, respectively, the amounts were classified as current assets as at 31 December 2023, 2024 and 2025.

Details of credit risk are set out in note 35.

25 BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Target Company and short-term bank deposits with an original maturity of three months or less. As at 31 December 2023, 2024 and 2025, bank balances carry interest at market rates which range from 1.61%-3.85%, 1.00%-1.75% and 1.07%-2.75%, respectively, per annum.

As at 31 December 2023, 2024 and 2025, bank balances and cash situated in the PRC amounted to RMB391,413,000, RMB370,766,000 and RMB307,396,000, respectively. Remittance of funds out of the PRC is subject to relevant rules and regulations of foreign exchange control.

The Target Company did not have bank balances and cash that are denominated in currencies other than the functional currencies during the Relevant Periods.

Details of credit risk are set out in note 35.

26 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 respective reporting period, and an analysis of other payables, accrued charges and other liabilities.

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 60 days	360,305	340,623	315,265
61 to 90 days	5,447	4,682	6,213
Over 90 days	63,346	63,520	68,814
	<u>429,098</u>	<u>408,825</u>	<u>390,292</u>
Trade payables	<u>429,098</u>	<u>408,825</u>	<u>390,292</u>

APPENDIX II
ACCOUNTANTS' REPORT OF AEON GD

The average credit period on purchases of goods was 67 days, 70 days and 60 days, respectively, for the years ended 31 December 2023, 2024 and 2025 respectively.

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accrued expenses and other liabilities	67,838	51,900	54,576
Accrued staff costs	66,875	58,896	52,364
Value added tax payables for advance receipts on prepaid store-value cards	36,638	35,257	31,879
Payables for purchase of property, plant and equipment	1,493	4,254	6,866
Provision for reinstatement (<i>Note</i>)	2,424	4,193	6,012
Rental deposits received	34,904	33,915	36,994
	<u>210,172</u>	<u>188,415</u>	<u>188,691</u>
Less: Rental deposits received and other liabilities under non-current liabilities	<u>(21,567)</u>	<u>(24,416)</u>	<u>(28,873)</u>
Other payables, accrued charges and other liabilities	<u>188,605</u>	<u>163,999</u>	<u>159,818</u>

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 Relevant Periods:

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at the beginning of the year	–	2,424	4,193
Additional provision for reinstatement	<u>2,424</u>	<u>1,769</u>	<u>1,819</u>
Balance at the end of the year	<u>2,424</u>	<u>4,193</u>	<u>6,012</u>

The following is an analysis of contract liabilities:

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advance receipts on prepaid store-value cards	278,485	269,319	243,135
Deferred revenue	<u>15,771</u>	<u>14,687</u>	<u>13,734</u>
	<u>294,256</u>	<u>284,006</u>	<u>256,869</u>

The contract liabilities represent the Target Company's obligation to transfer performance obligation to customers for which the Target Company has received consideration from the customers.

Movements in contract liabilities:

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at the beginning of the year	320,941	294,256	284,006
Decrease in contract liabilities as a result of recognising revenue during the year	(320,941)	(294,256)	(270,057)
Increase in contract liabilities as a result of receiving consideration	<u>294,256</u>	<u>284,006</u>	<u>242,920</u>
Balance at the end of the year	<u><u>294,256</u></u>	<u><u>284,006</u></u>	<u><u>256,869</u></u>

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– **Prepaid store-value cards**

The Target Company 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 Target Company grants award credits for customers for sales over certain amount under the Target Company's customer loyalty scheme. The customers can redeem the award credits as cash to be used in future sales. The award credits are with expiration dates of two years.

27 LEASE LIABILITIES

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Lease liabilities payable:			
Within one year	150,137	131,253	120,443
Within a period of more than one year but not more than two years	134,013	87,861	119,032
Within a period of more than two years but not more than five years	222,034	234,920	373,564
Within a period of more than five years	<u>469,656</u>	<u>479,847</u>	<u>516,214</u>
	975,840	933,881	1,129,253
Less: Amount due for settlement within 12 months shown under current liabilities	<u>(150,137)</u>	<u>(131,253)</u>	<u>(120,443)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>825,703</u>	<u>802,628</u>	<u>1,008,810</u>

28 AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY AND RELATED PARTIES

The amounts due to immediate holding company and related parties are trade-related, unsecured, interest free and with credit term of 60 to 90 days for the years ended 31 December 2023, 2024 and 2025. The amounts have an age of 30 to 90 days based on the invoice date at the end of each reporting period.

29 REGISTERED CAPITAL

At 31 December 2023, 2024 and 2025, the approved registered capital of the Target Company is RMB247,156,000. The paid-up registered capital was RMB247,156,000.

30 COMMITMENTS

(a) Capital commitments

The capital commitments in respect of property, plant and equipment are as follows:

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Contracted for but not provided for	<u>10,540</u>	<u>10,377</u>	<u>2,361</u>

(b) Commitments of future leases

The Target Company was committed to enter into new leases that are not yet commenced, the total lease payments per annum under which are as follows:

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Total lease payments of new leases entered but not yet commenced, per annum	<u>9,527</u>	<u>13,720</u>	<u>16,733</u>
Lease term entered but not yet commenced	9 to 15 years	11 to 15 years	5 to 15 years

31 OPERATING LEASING ARRANGEMENTS

The Target Company as lessor

For the years ended 31 December 2023, 2024 and 2025, all of the properties held by the Target Company for rental purposes have committed licensees for the next 1 to 6 years, respectively, with an option to renew the lease after that date at which time all terms.

Undiscounted lease payments receivable on leases are as follows:

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Within one year	85,591	89,136	84,031
In the second year	48,265	50,631	56,081
In the third year	20,685	24,993	32,623
In the fourth year	7,634	10,941	13,849
In the fifth year	3,363	5,611	6,793
After five years	<u>5,052</u>	<u>4,413</u>	<u>5,217</u>
	<u>170,590</u>	<u>185,725</u>	<u>198,594</u>

In addition to the minimum lease payments, the Target Company 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.

32 RETIREMENT BENEFITS SCHEMES

(a) Defined contribution retirement plans

The employees employed by the Target Company are members of the state-managed retirement benefits schemes operated by the PRC government. The Target Company is 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 Target Company 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 years ended 31 December 2023, 2024 and 2025 are RMB42,117,000, RMB44,159,000 and RMB50,434,000 respectively.

33 RELATED PARTY TRANSACTIONS

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

Relationship	Nature of transaction	2023	2024	2025
		RMB'000	RMB'000	RMB'000
Related parties	Other expenses	1,130	749	623
	Other income	394	808	409
	Purchase of goods and property, plant and equipment	103,057	98,282	92,092
	Interest on lease liabilities	6,195	15,340	13,851
	Repayment of lease liabilities	60,511	53,254	36,066
	Management fees and utilities expenses	31,962	31,775	28,318
	Rental income	1,037	762	517
	Sales of coupons	58	97	38
	Service fee expense	76,120	86,548	97,166
Ultimate holding company	Royalty expenses	8,475	7,481	7,824
	Interest expenses	79	23	406

Outstanding balances as at the end of each reporting period arising from the above transactions with related parties are set out in the statements of financial position except for the following balances, which are included in other receivables, prepayments and deposits, and lease liabilities:

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Amounts due from related parties (included in other receivables, prepayments and deposits)	<u>13,106</u>	<u>23,811</u>	<u>22,697</u>
Amounts due to related parties (included in lease liabilities)	<u>242,726</u>	<u>231,572</u>	<u>221,481</u>

Except for the amounts included in lease liabilities and amounts due from related parties is unsecured, interest free and has no fixed repayment term.

Compensation of key management personnel

	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>	2025 <i>RMB'000</i>
Short-term employee benefits	4,870	4,470	3,552
Post-employment benefits	<u>192</u>	<u>170</u>	<u>170</u>
	<u>5,062</u>	<u>4,640</u>	<u>3,722</u>

34 CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure that the Target Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Target Company consists of net debt, which includes lease liabilities disclosed in note 27, net of cash and cash equivalents and deficit attributable to owners of the Target Company, comprising registered capital and other reserves.

The Target Company'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 registered paid-up capital. Based on recommendations of the directors, the Target Company will balance its overall capital structure through the payment of dividends, as well as the issue of new debt.

35 FINANCIAL RISK MANAGEMENT

The Target Company's operating and financing activities expose it to a variety of financial risks, namely foreign currency risk, interest rate risk, credit risk and liquidity risk. The directors have overall responsibility for the establishment and oversight of the Target Company'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 Target Company does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose. The policies to mitigate the aforesaid financial risks are set out below.

The Target Company's risk management policies are established to identify and analyse the risks faced by the Target Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Target Company's activities. The Target Company, 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 Target Company through internal risk reports which analyse exposures by degree and magnitude of risks.

The Target Company's management monitors compliance with the Target Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Target Company. 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.

(a) Foreign currency risk management

Certain of the Target Company's purchases are denominated in foreign currencies other than the functional currencies of the operations to which they relate. They expose the Target Company to foreign currency risk and the Target Company currently does not have a foreign currency hedging policy.

The carrying amount of the Target Company's foreign currency denominated monetary liabilities at the reporting date is as follows:

	Liabilities		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HKD	48	68	200
JPY	391	588	320
	<u>439</u>	<u>656</u>	<u>520</u>

The carrying amount of the Target Company's foreign currency denominated monetary assets at the reporting dates where RMB nil. The Target Company has very few foreign currency transactions, the directors considered that the Target Company's exposures to risk of foreign currency fluctuation is limited.

(b) Interest rate risk management

The Target Company is exposed to interest rate risk which arises primarily from bank balances and cash which bear variable interest rates. Sensitivity analysis on bank balances and cash is not presented as the Target Company has no significant exposure to interest rate risk.

(c) Credit risk and impairment assessment

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

Credit card receivables from finance institutions

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

Amounts due from related parties

The credit terms for the amounts due from related parties are made in accordance with the relevant agreements and there are no significant overdue debts as at the end of the reporting period. The Target Company performs impairment assessment using lifetime ECL for trade-related amount due from related parties, and 12m ECL for other non-trade related balances individually. The Target Company 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 related parties was immaterial and no provision was made.

Other receivables and rental deposits

The Target Company 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 Target Company believes that there are no significant increase in credit risk of these amounts since initial recognition. Specific loss allowance of rental deposits with default amounted to RMB2,581,000 is recognised during the year ended 31 December 2025. Except for this, other receivables and rental deposits were considered to be of low credit risk and thus no ECL was recognised. The Target Company assessed the allowance for credit risk of other receivables and rental deposits was immaterial and no provision was made for the years ended 31 December 2023 and 2024.

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 Target Company assessed 12m ECL for pledged bank deposits, time deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. The relevant 12m ECL is considered to be immaterial and no provision was made.

(d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors of the Target Company, which has built an appropriate liquidity risk management framework for the management of the Target Company's short, medium and long-term funding and liquidity management requirements. The Target Company manages liquidity risk by maintaining adequate reserves, working capital and banking facilities.

The directors of the Target Company have given careful consideration to the future liquidity of the Target Company in light of the fact that the Target Company's current liabilities exceeded its current assets by RMB99,486,000 as at 31 December 2025. The directors of the Target Company have reviewed the cash flow projections prepared by management to evaluate the Target Company's ability to continue as a going concern. Based on the cash flow projections, the directors of the Target Company consider that the Target Company has adequate resources to continue in operational existence and to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2025. Note 3.1 further explains management's plans for managing the liquidity needs of the Target Company to enable it to continue to meet its obligations as they fall due.

The following tables detail the Target Company'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 Target Company 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 RMB'000	6 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows amount RMB'000	Carrying amount RMB'000
2023							
Lease liabilities	4.84%-7.893%	102,352	98,300	495,991	578,091	1,274,734	975,840
Non-interest bearing financial liabilities		518,069	7,460	18,912	3,272	547,713	547,713
		<u>620,421</u>	<u>105,760</u>	<u>514,903</u>	<u>581,363</u>	<u>1,822,447</u>	<u>1,523,553</u>
2024							
Lease liabilities	3.840%-7.893%	98,747	76,518	454,904	568,112	1,198,281	933,881
Non-interest bearing financial liabilities		399,981	11,489	51,439	49,823	512,732	512,732
		<u>498,728</u>	<u>88,007</u>	<u>506,343</u>	<u>617,935</u>	<u>1,711,013</u>	<u>1,446,613</u>
2025							
Lease liabilities	3.000%-7.893%	85,393	82,911	634,644	588,331	1,391,279	1,129,252
Non-interest bearing financial liabilities		391,700	13,152	49,317	53,024	507,193	507,193
		<u>477,093</u>	<u>96,063</u>	<u>683,961</u>	<u>641,355</u>	<u>1,898,472</u>	<u>1,636,445</u>

(e) Fair value of financial instruments

The fair values of financial assets and financial liabilities are 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 Target Company's financial statements approximate to their fair values.

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 Target Company 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.

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.

36 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Company'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 Target Company's statements of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000
At 1 January 2023	629,587
Financing cash flows	(201,649)
<i>Non-cash changes</i>	
New leases entered/leases modified	527,650
Lease early terminated	(17,714)
Interest on lease liabilities	<u>37,966</u>
At 31 December 2023	<u>975,840</u>
At 31 December 2023 and 1 January 2024	975,840
Financing cash flows	(200,614)
<i>Non-cash changes</i>	
New leases entered/leases modified	112,910
Lease early terminated	(6,287)
Interest on lease liabilities	<u>52,032</u>
At 31 December 2024	<u>933,881</u>
At 31 December 2024 and 1 January 2025	933,881
Financing cash flows	(183,606)
<i>Non-cash changes</i>	
New leases entered/leases modified	330,695
Lease early terminated	(13)
Interest on lease liabilities	<u>48,296</u>
At 31 December 2025	<u>1,129,253</u>

37 EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2025, the Target Company has no significant subsequent events.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2025.

Set out below is the management discussion and analysis of AEON GD for each of the three years ended 31 December 2023, 2024 and 2025 (collectively the “Relevant Periods”) based on the financial information of the Target Company as set out in Appendix II to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2023

BUSINESS REVIEW

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

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

Revenue for the year was RMB3,471 million (2022: RMB3,532 million).

PROSPECTS

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

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

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

FINANCIAL REVIEW

In the year 2023, revenue decreased by 1.7% year-on-year to RMB3,471.5 million (2022: RMB3,531.80 million). Gross profit margin dropped 0.5% to 18.7% (2022: 19.2%).

As for other income, income derived from sub-leases and others income increased by RMB30.6 million (2022: increased by RMB21.5 million), contributed by the Platform collaboration income in the year. Platform collaboration income received increased by RMB38.2 million to RMB38.3 million (2022: RMB0.04 million).

For operating expenses during the year under review, the Company's staff cost increased by 1.97% and its ratio to revenue increased slightly to 9.36% (2022: 9.02%). Expenses related to leases increased by 3.3% and the ratio of expenses to revenue increased to 0.92% (2022: 0.88%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, increased by 2.3% year-on-year and the ratio of other expenses to revenue was 10.1% (2022: 9.7%).

Included in other gains and losses, amongst others, was impairment loss in respect of property, plant and equipment of RMB1.9 million (2022: RMB6.5 million) and gain on disposal in respect of right-of-use assets of RMB4.91 million (2022: RMB5.3 million) were recognized in the year.

Due to the above changes, gain attributable to owners of the Company for the year was RMB2.2 million (2022: loss of RMB11.87 million), representing a decrease of RMB14.07 million.

The Company has reviewed the dividend policy taking into account the following factors including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant and propose a final dividend of RMB0.981 per share (2022 Final: RMB nil) for the year ended 31 December 2023.

During the year, capital expenditure for opening new stores and store renovation and the upgrade of information technology systems amounted to RMB49.1 million.

The Company also entered into new lease agreements and lease modifications in the year and recognized additional right-of-use assets of RMB532.6 million (2022: RMB69.0 million).

The Company maintained a net cash position with cash and bank balances and short-term time deposits amounting to RMB727.40 million as at 31 December 2023 (2022: RMB715.2 million). The Company had no bank borrowing and internal loan and therefore the gearing ratio is not applicable. The Company had sufficient internal resources to finance future business expansions. The Company does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose. The Company's capital structure comprises wholly of equity capital without any bank borrowing throughout the year ended 31 December 2023.

As at 31 December 2023, the Company did not have any significant investments accounting for more than 5% of the Company's total assets.

As at year end date, deposits of RMB21.5 million (2022: RMB21.7 million) were pledged to the bank as guarantees of the rental deposits to landlords.

The Company's total lease liabilities as at 31 December 2023 amounted to RMB976.0 million (2022: RMB630 million), of which RMB150.0 million (2022: RMB171.0 million) is payable within one year.

As at 31 December 2023, the Company's current assets exceeded its current liabilities by RMB23.1 million (2022: net current liabilities of RMB4.21 million).

The Company has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, working capital and banking facilities.

The Company has a very few foreign currency transactions. The Company currently does not have a foreign currency hedging policy and the Company and the directors considered that the Company's exposure to risk of foreign currency fluctuation is limited.

At 31 December 2023, the Company's capital commitments amounted to RMB90 million. The Company had no contingent liabilities at 31 December 2023.

During the year ended 31 December 2023, the Company did not have any material acquisitions or disposals of subsidiaries or associated companies. There was no specific plan for material investments or capital assets as at 31 December 2023.

HUMAN RESOURCES

As at 31 December 2023, the Company had approximately 2,618 full-time and 3,022 part-time employees in 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 Company will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Company 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 Company's ultimate goal is to build AEON into a brand that benefits all customers.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2024

BUSINESS REVIEW

In 2024, the global political and economic landscapes went through significant adjustments. With weak external demand and rising geopolitical risks casting a shadow over the global economy, retail businesses faced unprecedented uncertainties amid a prevalently challenging market environment. Thus, the Company actively adjusted its business strategy and implemented a series of reforms to adapt to market changes.

The Chinese mainland's GDP grew by 5.0% compared with the previous year, but less than the 5.2% in 2023. Total retail sales of consumer goods increased by 3.5% year-on-year, and the GDP of Guangdong province increased by 3.5% over last year. The total retail sales of consumer goods in the province increased by 0.8% against the previous year, of which retail sales of goods grew by only 0.6%. Domestic consumption and the real estate market remaining sluggish had dragged down overall economic recovery.

During the year, the Company actively adjusted its store layout and carried out extensive revitalisation and renovation of the Guangzhou Baotai Store and Guangzhou Taiyangcheng store. It also opened two new stores – Zhongshan Fuyicheng store and Guangzhou Baixinstore. The sales performance of both stores met expectations, injecting new vitality into the Group's business expansion. Existing store structure was reviewed and key sales areas were created heeding customers' consumption patterns to enhance their offline consumption experience.

In terms of merchandise strategy, the Company analysed past data and focused on promoting key product categories, as a result, those products maintained strong growth with sales exceeding the levels of the same period last year. In addition, the Company was committed to developing new products. These products performed well in the market and met at ease sales and gross profit expectations.

The Company vigorously promoted digitalisation to improve operational efficiency. In the O2O realm, for example, it implemented online and offline integration to enhance customers' consumption experience and reduce marketing costs, reaping the initial benefit of digital transformation. The Company's own e-commerce platform also made significant progress, boasting an improved sales mix proportion, giving the Company's online business stronger yet competitiveness.

In addition, the Company actively expanded income from tenants and achieved its budget target by optimising its leasing strategy and improving service quality. Income from tenants exceeded the level of the same period last year.

Revenue for the year was RMB3,478 million (2023: RMB3,472 million), an increase by 0.2% year-on-year.

PROSPECTS

Since the beginning of 2025, the economy and retail market in the Chinese Mainland has been complex and volatile. On top of navigating the challenges posed by escalating geopolitical risks on international trade, the Chinese Mainland also needs to deal with structural issues like people choosing to stay single and the aging population. That plus the more rational consumption behaviour of consumers have led to a persistent downturn in the retail store sector. Emerging business modes such as live-streaming e-commerce have also dealt a blow to the traditional retail industry, prompting the industry to accelerate digital investment and transformation, and realize comprehensive development of online and offline integration.

In response to the dynamic market environment and challenges, the Company is dedicated to improving its competitive edge. Along with expanding the sales mix proportion of its own brands and popular products, the Group will also continuously evaluate its product portfolio to improve gross profit. In addition, the Company will continue to build and optimise core sales floors, such as trendy play, children's toy, fruit, bakery, and pet sales areas to boost the appeal of the stores. The Company will also gradually introduce an AI loss prevention system and intelligent pricing system in its mainland stores, and conduct trials deploying smart shopping carts in select stores to enhance customers' shopping experience and the efficiency of store operations.

The Company plans to open 8 new stores in the GBA in 2025, including stand-alone supermarkets in Guangzhou, Foshan, Shenzhen and Jiangmen to meet the diverse needs of local consumers. It will also push to increase income from and foster win-win development with tenants by improving tenancy structure and tenant service quality. At the same time, the Company will advance workflow reform in 2025 to raise employees' work efficiency and satisfaction, so as to lay a solid foundation for its development in the years ahead.

FINANCIAL REVIEW

In the year 2024, the Company's revenue increased by 0.18% year-on-year to RMB3,478 million (2023: RMB3,471 million). Gross profit margin increased 0.2% to 18.9% (2023: 18.7%).

As for other income, income derived from sub-leases and others income increased by RMB14.2 million (2023: increased by RMB30.6 million). Meanwhile, government grants received increased by RMB6.1 million to RMB6.76 million (2023: RMB0.64 million) and other income resulted in an overall increase by 8.3% as compared with last year.

For operating expenses during the year under review, the Group's staff cost increased by 1.8% and its ratio to revenue decreased slightly to 0.16% (2023: 0.18%). Expenses related to leases decreased by 1.4% and the ratio of expenses to revenue decreased to 0.91% (2023: 0.92%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, increased by 0.19% year-on-year and the ratio of other expenses to revenue was 10.31% (2023: 10.12%).

Included in other gains and increased by 0.19% losses, amongst others, was impairment loss in respect of property, plant and equipment of RMB2.0 million (2023: RMB2.0 million) was recognised in the year.

Due to the above changes, loss attributable to owners of the Company for the year was RMB6.9 million (2023: gain of RMB2.2 million), representing a decrease in loss by RMB9.1 million.

The Company has reviewed the dividend policy taking into account the following factors including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant and does not recommended the final dividend (2023 Final: RMB0.981 per share) for the year ended 31 December 2024.

During the year, capital expenditure for opening new stores and store renovation and the upgrade of information technology systems amounted to RMB57.3 million.

The Company also entered into new lease agreements and lease modifications in the year and recognised additional right-of-use assets of RMB114.9 million (2023: HK\$532.0 million).

The Company maintained a net cash position with cash and bank balances and short-term time deposits amounting to RMB662.0 million as at 31 December 2024 (2023: RMB727.0 million). As at 31 December 2024, the Company has no bank borrowing and internal loan, so the gearing ratio is not applicable. The Company does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose. The Company's capital structure comprises wholly of equity capital without any bank borrowing throughout the year ended 31 December 2024.

As at year end date, deposits of RMB25.1 million (2023: RMB21.5 million) were pledged to the bank as guarantees of the rental deposits to landlords.

As at 31 December 2024, the Company's current assets exceeded its current liabilities by RMB32.7 million (2023: RMB23.1 million).

As at 31 December 2024, the Company did not have any significant investments accounting for more than 5% of the Company's total assets.

The Company has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, working capital and banking facilities.

The Company has a very few foreign currency transactions. The Company currently does not have a foreign currency hedging policy and the Company and the directors considered that the Company's exposure to risk of foreign currency fluctuation is limited.

At 31 December 2024, the Company's capital commitments amounted to RMB89 million. The Company had no contingent liabilities at 31 December 2024.

During the year ended 31 December 2024, the Company did not have any material acquisitions or disposals of subsidiaries or associated companies. There was no specific plan for material investments or capital assets as at 31 December 2024.

HUMAN RESOURCES

As at 31 December 2024, the Company had approximately 2,644 full-time and 3,219 part-time employees. 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 Company will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Company 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 Company’s ultimate goal is to build AEON into a brand that benefits all customers.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2025**BUSINESS REVIEW**

In 2025, against a backdrop of geopolitical tensions and high tariffs, the business environment remained complex, with consumer sentiment still cautious. Facing a volatile market environment, the Company actively responded to market changes and continued to promote merchandise reform, store network optimization and digital transformation, aiming to improve operational efficiency and maintain business resilience.

The Chinese Mainland economy maintained steady growth, supported by policy measures. However, it continued to face challenges such as an imbalance between “strong supply and weak demand”, volatility arising from real estate market adjustments, and a more complex external trade environment. Last year, the Chinese Mainland’s GDP exceeded RMB140 trillion, representing a year-on-year increase of 5.0%. In 2025, Guangdong Province’s GDP grew by 3.9% year-on-year to RMB14.58 trillion. Total retail sales of consumer goods for the year increased by 2.8% year-on-year, a growth rate 2.0 percentage points faster than the previous year.

During the year, the Company opened eight new stores including the AEON Guangzhou Hengbao Store, Guangzhou Lingzhan Store, Guangzhou Guanghuicheng Store, Guangzhou Hanxi Avenue Store, Guangzhou Tower Store, Shenzhen Longgang Renheng Store, Foshan MixC Store, Jiangmen Lihe Plaza Store. This enabled the Company to achieve its goal of increasing market share in the Greater Bay Area. Meanwhile, the Company revitalized and renovated the Foshan Oriental Plaza Store, Dongguan First International Store and Guangzhou Teemall Store during the year to meet customers’ evolving needs and provide differentiated shopping experiences. AEON STYLE Guangzhou Teemall broke away from traditional department store classification methods, by enhancing four key elements – merchandise, services, environment, and experience – to offer customers a personalized, immersive, and enjoyable shopping journey. However, due to changes in customer demographics and demand, as well as intensified industry competition, the segment saw a decrease in performance.

Revenue for the year RMB3,456 million (2024: RMB3,478 million) with a decline of 0.62% (2024: decrease of 0.18%).

PROSPECTS

The year 2026 marks the beginning of the “15th Five-Year Plan” for the Chinese Mainland economy, with macro policies expected to focus on expanding domestic demand. The Company will seize relevant opportunities to rebuild its operational foundation and accelerate the pace of business transformation. The Company will clearly define its target customer base and deliver tailored products and services based on their specific needs. At the same time, it will prioritise membership management to steadily increase both membership numbers and purchase frequency. In addition, by expanding the sales scale of the AEON APP and improving real-time delivery services, the Company will deepen the online-offline integrated experience, thereby boosting customer loyalty and lifetime value.

In terms of store format deployment and product structure, the Company continues to expand its Supermarket operations with the aim of increasing its market share. Leveraging its existing TOPVALU products as the foundation of its stores offering, the Company seeks to establish a low-cost operating model while simultaneously developing new products to build a competitive edge in both price and quality. The Company plans to open 3 new Supermarkets in the coming year.

To ensure it achieves its strategic goals, the Company will proceed with the concurrent development of new systems, logistics, and organizational structures. By upgrading its system and logistics center, the Company will integrate a new regional distribution hub to support its business growth in South China, and, through digitalization and infrastructure enhancements, comprehensively improve on-site operations and store efficiency.

FINANCIAL REVIEW

In the year 2025, the Company’s revenue decreased by 1.2% year-on-year to RMB3,456 million (2024: RMB3,478 million). Gross profit margin dropped 0.04% to 18.86% (2024: 18.9%).

As for other income, income derived from sub-leases and others income decreased by 13.9 million (2024: increased by RMB14.2 million). The income from promotion platform has also reduced by 17.3% (2024: increased by 1.4%) which resulted in an overall decreased by 9.7% as compared with last year.

For operating expenses during the year under review, the Company's staff cost increased by 3.5% and its ratio to revenue increased slightly to 0.40% (2024: 0.15%). Expenses related to leases decreased by 7.0% and the ratio of expenses to revenue decreased to 0.06% (2024: 0.01%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, increased by 6.3% year-on-year and the ratio of other expenses to revenue was 11.0% (2024: 10.3%).

Included in other gains and losses, amongst others, impairment loss in respect of property, plant and equipment of RMB0.1 million (2024: RMB2.0 million) was recognised in the year.

Due to the above changes, loss attributable to owners of the Company for the year was RMB77.7 million (2024: loss of RMB6.9 million), representing a decrease in loss by RMB70.8 million.

The Company has reviewed the dividend policy taking into account the following factors including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant and does not recommended the final dividend (2024 Final: RMB Nil) for the year ended 31 December 2025.

During the year, capital expenditure for opening new stores and store renovation and the upgrade of information technology systems amounted to RMB133.0 million.

The Company also entered into new lease agreements and lease modifications in the year and recognised additional right-of-use assets of RMB333.6 million (2024: RMB114.9 million).

The Company maintained a net cash position with cash and bank balances and short-term time deposits amounting to RMB497.0 million as at 31 December 2025 (2024: RMB662.0 million). As at 31 December 2025, the Company has no bank borrowing and internal loan, so the gearing ratio is not applicable. The Company does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose. The Company's capital structure comprises wholly of equity capital without any bank borrowing throughout the year ended 31 December 2025.

As at year end date, deposits of RMB29.1 million (2024: RMB25.1 million) were pledged to the bank as guarantees of the rental deposits to landlords.

As at 31 December 2025, the Company's current liabilities exceeded its current assets by RMB99.49 million (2024: net current assets of 2024: 32.73 million).

As at 31 December 2025, the Company did not have any significant investments accounting for more than 5% of the Company's total assets.

The Company has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, working capital and banking facilities.

The Company has a very few foreign currency transactions. The Company currently does not have a foreign currency hedging policy and the Company and the directors considered that the Company's exposure to risk of foreign currency fluctuation is limited.

At 31 December 2025, the Company's capital commitments amounted to RMB92 million. The Company had no contingent liabilities at 31 December 2025.

During the year ended 31 December 2025, the Company did not have any material acquisitions or disposals of subsidiaries or associated companies. There was no specific plan for material investments or capital assets as at 31 December 2025.

HUMAN RESOURCES

As at 31 December 2025, the Company had approximately 2,756 full-time and 3,690 part-time employees. 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 Company will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Company 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 Company's ultimate goal is to build AEON into a brand that benefits all customers.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an unaudited pro forma financial information of the Group (the "Unaudited Pro Forma Financial Information") as if the proposed acquisition of 35% equity interests in Guangdong AEON Teem Co., Ltd ("AEON GD" or the "Target Company"), a directly non-wholly owned subsidiary of AEON Stores (Hong Kong) Co., Ltd. (the "Company") (the "Proposed Acquisition") had been completed on 31 December 2025 for the unaudited proforma consolidated statement of financial position, and on 1 January 2025 for the unaudited proforma consolidated of profit or loss, the unaudited proforma consolidated of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma financial information of the Group has been prepared by the directors of the Company (the "Directors") in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to illustrate the effects of the Proposed Acquisition on the Group for inclusion in this circular only. The Unaudited Pro Forma Financial Information was prepared based on certain assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, the unaudited pro forma financial information of the Group may not purport to predict what the financial performance and cash flows or financial position of the Group would have been if the Proposed Acquisition had been completed on 31 December 2025 or 1 January 2025, where applicable, or at any future dates.

The Unaudited Pro Forma Financial Information has been prepared based on the consolidated statement of financial position as at 31 December 2025, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows for the year ended 31 December 2025, which has been extracted from the audited consolidated financial statements of the Company.

The unaudited pro forma financial information of the Group is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments of the Proposed Acquisition that are (i) directly attributable to the Proposed Acquisition; and (ii) factually supportable, is summarised in the accompanying notes.

The unaudited pro forma financial information should be read in conjunction with the published annual results announcement of the Group for the year ended 31 December 2025 and other financial information included elsewhere in this Circular.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP AT 31 DECEMBER 2025

	The Group as at 31 December 2025 HK\$'000 <i>(Note 1)</i>	Pro forma adjustments HK\$'000 <i>(Notes 2.1 and 2.3)</i>			The Group as at 31 December 2025 HK\$'000
		HK\$'000 <i>(Note 2.2)</i>	HK\$'000 <i>(Note 3)</i>		
Non-current assets					
Property, plant and equipment	453,930	-	-	453,930	
Right-of-use assets	2,284,677	-	-	2,284,677	
Investment properties	356,886	-	-	356,886	
Equity instruments at FVTOCI	5,819	-	-	5,819	
Pledged bank deposits	30,585	-	-	30,585	
Time deposits	2,960	-	-	2,960	
Deferred tax assets	19,301	-	-	19,301	
Rental and related deposits paid	198,257	-	-	198,257	
	<u>3,352,415</u>	<u>-</u>	<u>-</u>	<u>3,352,415</u>	
Current assets					
Inventories	773,021	-	-	773,021	
Receivables, prepayments and deposits	151,778	-	-	151,778	
Amounts due from fellow subsidiaries	10,937	-	-	10,937	
Pledged bank deposits	12,645	-	-	12,645	
Time deposits	208,304	-	-	208,304	
Bank balances and cash	400,541	(187,364)	187,364	(5,933) 394,608	
	<u>1,557,226</u>	<u>(187,364)</u>	<u>187,364</u>	<u>(5,933)</u> <u>1,551,293</u>	
Current liabilities					
Trade payables	1,027,884	-	-	1,027,884	
Other payables, accrued charges and other liabilities	585,772	-	-	585,772	
Lease liabilities	682,901	-	-	682,901	
Contract liabilities	352,458	-	-	352,458	
Dividend payable	201	-	-	201	
Amount due to ultimate holding company	26,415	-	-	26,415	
Loans from ultimate holding company	416,357	-	187,364	- 603,721	
Amounts due to fellow subsidiaries	25,154	-	-	25,154	
Tax payable	188	-	-	188	
	<u>3,117,330</u>	<u>-</u>	<u>187,364</u>	<u>-</u> <u>3,304,694</u>	

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group as at 31 December 2025	Pro forma adjustments			The Group as at 31 December 2025
	HK\$'000 (Note 1)	HK\$'000 (Notes 2.1 and 2.3)	HK\$'000 (Note 2.2)	HK\$'000 (Note 3)	HK\$'000
Net current liabilities	(1,560,104)	(187,364)	–	(5,933)	(1,753,041)
Total assets less current liabilities	<u>1,792,311</u>	<u>(187,364)</u>	<u>–</u>	<u>(5,933)</u>	<u>1,599,014</u>
Non-current liabilities					
Rental deposits received and other liabilities	116,619	–	–	–	116,619
Lease liabilities	<u>2,461,577</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,461,577</u>
	<u>2,578,196</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,578,196</u>
Net liabilities	<u>(785,885)</u>	<u>(187,364)</u>	<u>–</u>	<u>(5,933)</u>	<u>(979,182)</u>
Capital and reserves					
Share capital	115,158	–	–	–	115,158
Reserves	<u>(971,535)</u>	<u>(116,872)</u>	<u>–</u>	<u>(5,933)</u>	<u>(1,094,340)</u>
Deficit attributable to shareholders of the Company	(856,377)	(116,872)	–	(5,933)	(979,182)
Non-controlling interest	<u>70,492</u>	<u>(70,492)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total deficit	<u>(785,885)</u>	<u>(187,364)</u>	<u>–</u>	<u>(5,933)</u>	<u>(979,182)</u>

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2025

	The Group for the year ended 31 December 2025	Pro forma adjustments			The Group for the year ended 31 December 2025
	HK\$'000 <i>(Note 1)</i>	HK\$'000 <i>(Notes 2.1 and 2.4)</i>	HK\$'000 <i>(Note 2.2)</i>	HK\$'000 <i>(Note 3)</i>	HK\$'000
Revenue	7,795,154	-	-	-	7,795,154
Other income	436,700	-	-	-	436,700
Investment income	8,813	-	-	-	8,813
Interest income from rental deposits	12,807	-	-	-	12,807
Purchase of goods and changes in inventories	(5,578,938)	-	-	-	(5,578,938)
Staff costs	(847,924)	-	-	-	(847,924)
Depreciation of investment properties	(73,016)	-	-	-	(73,016)
Depreciation of property, plant and equipment	(140,072)	-	-	-	(140,072)
Depreciation of right-of-use assets	(654,017)	-	-	-	(654,017)
Leases expenses	(54,976)	-	-	-	(54,976)
Other expenses	(1,049,424)	-	-	(2,277)	1,051,701
Pre-operating expenses	(9,348)	-	-	-	(9,348)
Other gains and losses	21,015	-	-	-	21,015
Finance costs	(8,190)	-	(6,614)	-	(14,804)
Interest on lease liabilities	(210,044)	-	-	-	(210,044)
Loss before tax	(351,460)	-	(6,614)	(2,277)	(360,351)
Income tax expense	(2,594)	-	-	-	(2,594)
Loss for the year	(354,054)	-	(6,614)	(2,277)	(362,945)
Loss for the year attributable to:					
Owners of the Company	(324,351)	(29,703)	(6,614)	(2,277)	(362,945)
Non-controlling interest	(29,703)	29,703	-	-	-
	<u>(354,054)</u>	<u>-</u>	<u>(6,614)</u>	<u>(2,277)</u>	<u>(362,945)</u>

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME OF THE GROUP FOR YEAR ENDED 31
DECEMBER 2025**

	The Group for the year ended 31 December 2025 <i>HK\$'000</i>	Pro forma adjustments			The Group for the year ended 31 December 2025 <i>HK\$'000</i>
	<i>(Note 1)</i>	<i>HK\$'000 (Notes 2.1 and 2.4)</i>	<i>HK\$'000 (Note 2.2)</i>	<i>HK\$'000 (Note 3)</i>	
Loss for the year	<u>(354,054)</u>	–	<u>(6,614)</u>	<u>(2,277)</u>	<u>(362,945)</u>
Other comprehensive income					
<i>Item that will not be reclassified to profit or loss:</i>					
Fair value gain on investments in equity instruments measured at fair value through other comprehensive income (“FVTOCI”)	3,231	–	–	–	3,231
<i>Item that may be subsequently to profit or loss:</i>					
Exchange differences arising on translation of operations outside Hong Kong	<u>(4,321)</u>	–	–	–	<u>(4,321)</u>
Other comprehensive income for the year	<u>(1,090)</u>	–	–	–	<u>(1,090)</u>
Total comprehensive income for the year	<u>(355,144)</u>	–	<u>(6,614)</u>	<u>(2,277)</u>	<u>(364,035)</u>
Total comprehensive income for the year attributable to:					
Owners of the Company	(326,792)	(28,352)	(6,614)	(2,277)	(364,035)
Non-controlling interest	<u>(28,352)</u>	<u>28,352</u>	–	–	–
	<u>(355,144)</u>	–	<u>(6,614)</u>	<u>(2,277)</u>	<u>364,035</u>

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2025

	The Group for the year ended 31 December 2025	Pro forma adjustments			The Group for the year ended 31 December 2025
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 1)	(Note 2.1)	(Note 2.2)	(Note 3)	
Operating activities					
Loss before tax	(351,460)	-	(6,614)	(2,277)	(360,351)
Adjustments for:					
Depreciation of investment properties	73,016	-	-	-	73,016
Depreciation of property, plant and equipment	140,072	-	-	-	140,072
Depreciation of right-of-use assets	654,017	-	-	-	654,017
Interest on lease liabilities	210,044	-	-	-	210,044
Finance costs	8,190	-	6,614	-	14,804
Interest income from rental deposits	(12,807)	-	-	-	(12,807)
Impairment loss recognised in respect of property, plant and equipment	158	-	-	-	158
Investment income	(8,813)	-	-	-	(8,813)
Loss on disposal/write-off of property, plant and equipment	989	-	-	-	989
Write-down of inventories	630	-	-	-	630
Gain on lease modifications	(1)	-	-	-	(1)
Loss allowance on rental deposits	2,818	-	-	-	2,818
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	716,853	-	-	(2,277)	714,576
Decrease in inventories	77,985	-	-	-	77,985
Increase in receivables, prepayments and deposits	(14,383)	-	-	-	(14,383)
Decrease in amounts due from fellow subsidiaries	9,806	-	-	-	9,806
Increase in trade payables	14,604	-	-	-	14,604
Decrease in other payables, accrued charges and other liabilities	(74,796)	-	-	-	(74,796)
Decrease in contract liabilities	(23,312)	-	-	-	(23,312)
Increase in amount due to ultimate holding company	7,307	-	-	-	7,307
Decrease in amounts due to fellow subsidiaries	(2,939)	-	-	-	(2,939)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cash generated from operations	711,125	-	-	(2,277)	708,848
Income taxes paid	(306)	-	-	-	(306)
Interest on bank deposits and time deposits received	8,768	-	-	-	8,768
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net cash from operating activities	719,587	-	-	(2,277)	717,310

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2025	Pro forma adjustments			The Group for the year ended 31 December 2025
	HK\$'000 (Note 1)	HK\$'000 (Note 2.1)	HK\$'000 (Note 2.2)	HK\$'000 (Note 3)	HK\$'000
Investing activities					
Placement of pledged bank deposits	(5,716)	-	-	-	(5,716)
Withdrawal of pledged bank deposits	6,906	-	-	-	6,906
Dividends from equity instruments at FVTOCI	736	-	-	-	736
Purchase of property, plant and equipment	(181,324)	-	-	-	(181,324)
Proceeds from disposal of property, plant and equipment	421	-	-	-	421
Proceeds from disposal of equity instruments	9,960	-	-	-	9,960
Payment for acquisition of non-controlling interests	-	(187,364)	-	(3,656)	(191,020)
Decrease of rental deposits paid	3,426	-	-	-	3,426
Placement of time deposits	(577,816)	-	-	-	(577,816)
Withdrawal of time deposits	691,510	-	-	-	691,510
Net cash used in investing activities	(51,897)	(187,364)	-	(3,656)	(242,917)
Financing activities					
Interest paid	(2,987)	-	-	-	(2,987)
Proceeds from new loan from ultimate holding company	195,008	-	187,364	-	382,372
Interest on lease liabilities	(210,044)	-	-	-	(210,044)
Repayments of lease liabilities	(764,925)	-	-	-	(764,925)
Net cash used in financing activities	(782,948)	-	187,364	-	(595,584)
Net decrease in cash and cash equivalents	(115,258)	(187,364)	187,364	(5,933)	(121,191)
Cash and cash equivalents at 1 January	515,277	-	-	-	515,277
Effect of foreign exchange rate changes	522	-	-	-	522
Cash and cash equivalents at 31 December, represented by bank balances and cash	400,541	(187,364)	187,364	(5,933)	394,608

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. The amounts are extracted from the audited consolidated financial statements of AEON Stores (Hong Kong) Co. Ltd and its subsidiaries (the "Group") as at and for the year ended 31 December 2025.

The Target Company is a non-wholly owned subsidiary of the Company before the Proposed Acquisition. The assets, liabilities and equity, as well as the financial performance and the cash flows, of the Target Company as at and for the year ended 31 December 2025 have been consolidated into the consolidated financial statements of the Group as at and for the year ended 31 December 2025.

2. The adjustment represents:

2.1 The bid price to be submitted by the Company for the Proposed Acquisition of the Target Company in the public tender process is not more than RMB170,269,000 (approximately HK\$187,364,000). For the purpose of this pro forma financial information, the maximum bid price has been used as the consideration of the Proposed Acquisition. This adjustment is not expected to have a continuing effect on the Group.

2.2 The consideration of the Proposed Acquisition would be financed through shareholder loan from its ultimate holding company, AEON Co., Ltd. The loan from the ultimate holding company is unsecured and repayable on 28 February 2027, with the interest rate of 3.53% per annum. This adjustment is expected to have a continuing effect on the Group.

2.3 Upon the completion of the Proposed Acquisition, the excess of the consideration paid over the carrying amount of the non-controlling interests would be recognised in equity, amounting to HK\$116,872,000. The carrying amount of the non-controlling interests is HK\$70,492,000. This adjustment is expected to have a continuing effect on the Group.

2.4 As a result of the Proposed Acquisition, the non-controlling interests would be derecognised and loss for the year attributable to non-controlling interest of HK\$29,703,000 would be fully attributable to the owners of the Company as a result of the Proposed Acquisition. This adjustment is expected to have a continuing effect on the Group.

3. The adjustment represents the estimated transaction costs of approximately HK\$5,933,000 assumed to be paid, relating to the Proposed Acquisition, which would be settled by bank balances and cash of the Group. Of this amount, HK\$3,656,000 is the transaction costs would be incurred in public tender which is directly attributable to the Proposed Acquisition and accounted as a reduction from equity; HK\$2,277,000 is acquisition-related costs including audit, legal, valuation and other professional services relating to the Proposed Acquisition, which would be charged to profit or loss. This adjustment is not expected to have a continuing effect on the Group.

4. For the purposes of this Unaudited Pro Forma Financial Information, amounts in RMB are translated into HK\$ using an exchange rate of approximately RMB1.00 to HK\$1.1004. No representation is made that RMB denominated amounts have been, could have been or could be converted to HK\$, or vice versa, at the rates applied or at any other rates or at all.

5. Apart from the above, no other adjustment has been made to reflect any trading results or other transactions entered into by the Group or the Target Company subsequent to 31 December 2025 for the unaudited pro forma consolidated statement of financial position as at 31 December 2025, and subsequent to 31 December 2025 for the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2025 as if the Proposed Acquisition had taken place as at 31 December 2025 and 1 January 2025, respectively.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF AEON STORES (HONG KONG) CO., LTD**

We have completed our assurance engagement to report on the compilation of pro forma financial information of AEON Stores (Hong Kong) Co., Ltd (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2025, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2025 and related notes as set out in Part A of Appendix IV to the circular dated 29 April 2026 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 35% equity interests in Guangdong AEON Teem Co., Ltd. (the "Proposed Acquisition") on the Group's financial position as at 31 December 2025 and the Group's financial performance and cash flows for the year ended 31 December 2025 as if the Proposed Acquisition had taken place at 31 December 2025 and 1 January 2025, respectively. As part of this process, information about the Group's financial position as at 31 December 2025 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audited report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements”, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2025 or 1 January 2025 would have been as presented.

APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

29 April 2026

The following is the report prepared for the purpose of incorporation in this circular received from Jones Lang Lasalle Corporation Appraisal and Advisory Limited, an independent valuer, in connection with its valuation of 35% of the equity interests of AEON GD as at 31 December 2025.



仲 聯 行

29 April 2026

The Board of Directors
AEON Stores (Hong Kong) Co., Ltd.
Units 07-11, 26/F, CDW Building
388 Castle Peak Road,
Tsuen Wan, New Territories, Hong Kong

Dear Sirs,

In accordance with the instructions received from AEON Stores (Hong Kong) Co., Ltd. (“HKA” or the “Company”), Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”) has undertaken a valuation exercise which requires us to express an independent opinion on the market value of 35 percent equity interest in Guangdong AEON Teem Co., Ltd. (“廣東永旺天河城商業有限公司”, “AEON GD” or the “Target”) as at 31 December 2025 (the “Valuation Date”). The report which follows is dated 29 April 2026 (the “Report Date”).

PURPOSE OF VALUATION

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

BASIS OF OPINION

Our valuation was carried out on a market value basis. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

BACKGROUND

Guangdong AEON Teem Co., Ltd. (“AEON GD” or the “Target”), is a sino-foreign equity joint venture established in the PRC by the Company and 廣東粵海天河城百貨發展有限公司 (“Teemall Department Stores”, a subsidiary of 廣東粵海天河城（集團）股份有限公司) pursuant to a joint venture agreement between the parties.

AEON GD has been operating the retail businesses in the Guangdong Province since 1995, which has successfully accumulated a substantial and valuable customer base, and achieved satisfactory business results. As the first Japanese retail enterprise to enter the Guangdong market, it took the lead in introducing the advanced foreign GMS (comprehensive department store) business model and launched the SM (food supermarket) business model in 2010. The businesses it has carried out include GMS business, SM business, and small SM business.

As at the Valuation Date, the Company and Teemall Department Stores hold 65 percent and 35 percent equity interest in AEON GD respectively. According to the Company’s introduction, as Teemall Department Stores, a PRC state-owned company, intends to exit part of its investment in AEON GD through public tender, the Company is intended to purchase the 35 percent equity interest of AEON GD from Teemall Department Stores. Upon completion of the Proposed Acquisition, assuming that the Company is successful in the Public Tender, the Company will increase its equity interest in AEON GD from 65% to 100%.

FINANCIAL INFORMATION OF THE TARGET

Key financial information of the Target for the last three financial years ended 31 December are set out as below:

Reporting Period for the Year Ended <i>(Amounts in RMB'000)</i>	31 December 2023 (Audited)	31 December 2024 (Audited)	31 December 2025 (Audited)
Revenue	3,471,508	3,477,927	3,456,207
Net profit/(Loss)	2,205	(6,912)	(77,749)
EBITDA	30,965	55,384	140,153
Non-current Assets	1,099,273	1,061,479	1,326,581
Net Assets	275,054	267,161	189,412

Over the three-year period from 2023 to 2025, AEON GD’s revenue remained relatively stable at approximately RMB3.5 billion, recording RMB3,471.5 million in 2023, RMB3,477.9 million in 2024, and RMB3,456.2 million in 2025. This modest revenue volatility reflects the challenging operating environment in Mainland China’s retail sector, characterized by weak consumer confidence, deflationary pressures, sluggish domestic demand, and intensified competition from e-commerce platforms.

Profitability deteriorated significantly, with net profit declining from RMB2.2 million in 2023 to losses of RMB6.9 million in 2024 and RMB77.7 million in 2025, primarily due to rising operating expenses, increased lease liabilities, and impairment losses on property, plant and equipment. However, EBITDA demonstrated strong improvement, surging from RMB31.0 million in 2023 to RMB55.4 million in 2024 and RMB140.2 million in 2025, representing a 353% increase over the period, reflecting management's cost optimization and operational efficiency initiatives.

From a balance sheet perspective, net assets declined by 31.1% from RMB275.1 million in 2023 to RMB189.4 million in 2025, primarily due to accumulated losses. Non-current assets increased by 20.7% to RMB1,326.6 million, driven by store network expansion and new lease agreements, demonstrating the Company's commitment to strategic growth in the Greater Bay Area despite near-term profitability challenges.

SOURCE OF INFORMATION

This report was compiled after consideration of all relevant information obtained from the Company and other public sources. Documents received include, but were not limited to:

- Background information of the Target;
- Legal documents related to the Target;
- Historical financial information of the Target for the financial years ended 31 December 2023, 2024, and 2025; and
- Other operating and market information in relation to the business of the Target.

We conducted interviews and held discussions with the management of the Company. We have relied to a considerable extent on information provided in arriving at our opinion of value. We believe that the information provided by the Company is reasonable and reliable. In addition, we also conducted research using various sources including government statistics and other publications.

APPROACH AND METHODOLOGY

In arriving the market value of 35 Percent equity interest in the Target, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition of the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market.

Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Selection of Valuation Approach and Methodology

To select the most appropriate approach, we have considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to us to perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Target. In our opinion, the cost approach is inappropriate for valuing the Target, as it does not directly incorporate information about the economic benefits contributed by the Target. The income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. On the other hand, the market approach relies on market data from comparable companies or transactions, reflecting what investors are currently willing to pay for similar equity interests. Given that there are sufficient publicly listed companies that are comparable to the Target in terms of industry relevance and geographic focus, we have adopted the market approach in this valuation.

There are two common methods under market approach, namely, guideline public company method and guideline transaction method. Guideline public company method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to Target's financial metrics.

In this exercise, the market value of equity interest in the Target was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of sufficient recent market transactions with similar nature as the Target. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple. In this valuation, we have considered the following commonly used benchmark multiples:

Benchmark multiple	Abbreviation	Analysis
Price to earnings	P/E	Not used. P/E is not selected as it does not capture the financial leverage and other related risk feature across the companies.
Price to book	P/B	Not used. P/B multiple is not selected as P/B fails to capture the intangible company-specific competencies and advantages so in general, the equity's book value has little bearing with its fair value.
Price to sales & Enterprise Value to Sales	P/S & EV/S	Not used. P/S & EV/S are not used in the valuation as P/S & EV/S do not take into account a company's profitability.
Enterprise Value to EBITDA	EV/EBITDA	Adopted. EV/EBITDA is considered the most appropriate multiple for comparing companies with different financial leverage (debt) since it is less likely to be distorted by noncash items such as depreciation and amortisation and incorporates both the Target's profitability and future earnings expectations, providing a clear benchmark against the other Comparable Companies.

In this valuation, The EV/EBITDA Ratio is defined as the current enterprise value to the earnings before interest, tax, depreciation and amortization of the Target from 1 January 2025 to 31 December 2025. The EV/EBITDA Ratio is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows us to compare the Target against the comparable companies without being impacted by how each comparable company finances its operations.

ASSUMPTIONS

In this exercise, we have applied the following assumptions as at the Valuation Date in deriving the market value of the 35 Percent Equity Interest in the Target.

General Assumptions

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- The operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge; and
- We have assumed that there are no hidden or unexpected conditions associated with the Target that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

Market Multiple

AEON GD primarily engages in retail industry that mainly provide supermarket and general merchandise services. From FY2022 to FY2025, AEON GD derived almost 100% of its revenue from retail business according to the management. Additionally, AEON GD generated all its revenue in Mainland China.

Under guideline public company method, in determining the financial multiple, a list of comparable companies was identified. The selection criteria include the followings:

- The companies have been listed on HKEX, SZSE or SHSE for no fewer than 12 months;
- The primary industry of the companies is “Consumer Discretionary Distribution and Retail” or “Broadline Retail” or “Consumer Staples Distribution and Retail” or “Consumer Staples Merchandise Retail” under Global Industry Classification Standard, with keyword “supermarket” or “hypermarkets” included in its business description as extracted from S&P Capital IQ;
- The companies derive over 90% of its revenues from operation of supermarkets in China; and
- Sufficient data, including the EV/EBITDA ratio, on the comparable companies are available as at the Valuation Date;

The comparable companies satisfying the aforementioned criteria are:

Ticker	Name	Company Description	% of Revenue from retail business and supermarket operations ¹
SHSE:601116	Sanjiang Shopping Club Co., Ltd.	Sanjiang Shopping Club Co., Ltd operates a chain of food supermarkets in Zhejiang province, the People’s Republic of China. The company operates community stores, Hema stores, and neighborhood stores. The company was founded in 1995 and is headquartered in Ningbo, the People’s Republic of China.	approximately 100%

Ticker	Name	Company Description	% of Revenue from retail business and supermarket operations ¹
SEHK:6808	Sun Art Retail Group Limited	Sun Art Retail Group Limited, an investment holding company, operates brick-and-mortar stores and online sales channels in the People's Republic of China. The company operates hypermarkets, super stores, and membership stores under RT-Mart, RT-Super, and M-Club names. The company was founded in 1998 and is based in Shanghai, China.	approximately 100%
SHSE:605188	Jiangxi Guoguang Commercial Chains Co., Ltd.	Jiangxi Guoguang Commercial Chains Co., Ltd. operates a chain of supermarkets and department stores in China. Its stores fresh food and food as its core category. The company was founded in 2005 and is based in Ji'an, China. Jiangxi Guoguang Commercial Chains Co., Ltd. operates as a subsidiary of Jiangxi Guoguang Industrial Co., Ltd.	approximately 98%
SEHK:814	Beijing Jingkelong Company Limited	Beijing Jingkelong Company Limited engages in the retail and wholesale distribution of daily consumer products. It operates through three segments: Retailing, Wholesaling, and Others. The company is involved in the operation of hypermarkets, supermarkets, convenience stores, and department stores. The company was founded in 1994 and is based in Beijing, China.	approximately 100%
SHSE:603708	Jiajiayue Group Co., Ltd.	Jiajiayue Group Co., Ltd. engages in the operation of supermarkets chains in the People's Republic of China. The company was founded in 1981 and is based in Weihai, the People's Republic of China.	approximately 97%

Note:

1. The percentage of revenue generated from retail business and supermarket operations is directly extracted from or calculated using the annual reports of the comparable companies.
2. The list of Comparable Companies is exhaustive based on the selection criteria and our understanding of the Target and the Comparable Companies.

Below are the financial details and the unadjusted EV/EBITDA multiples of the comparable companies:

Ticker	Name	EV/EBITDA ratio before adjustment ¹
SHSE:601116	Sanjiang Shopping Club Co., Ltd	22.88
SEHK:6808	Sun Art Retail Group Limited.	2.69
SHSE:605188	Jiangxi Guoguang Commercial Chains Co., Ltd.	69.33
SEHK:814	Beijing Jingkelong Company Limited	13.15
SHSE:603708	Jiajiayue Group Co., Ltd.	7.04

Note:

1. Data sourced from S&P Capital IQ. The EV/EBITDA data of the comparable companies are based on the latest financial data of the comparable companies available as of the Valuation Date.

The comparable companies are often of significantly different size from the Target. Larger companies are generally perceived as less risky in relation to business operation and financial performance, and thus the expected returns are lower and resulting in higher multiples. Similarly, smaller companies implied higher business risk, resulting in lower valuation multiple. Therefore, the base multiples were adjusted to reflect the difference in size between the comparable companies and the Target.

The adjusted EV/EBITDA Ratios were calculated using the following formula:

$$\text{Adjusted EV/EBITDA Ratio} = 1 / ((1/M) + \alpha * \epsilon * \theta)$$

Where:

M = The Base EV/EBITDA Ratio

α = The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies

ε = The ratio of the equity value to the enterprise value of the comparable company

θ = Required adjustment in the equity discount rate for difference in size

M is the base EV/EBITDA ratio and we take the reciprocal of M to come up with $1/M$. The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/EBITDA multiple represents a capitalization rate of the enterprise value.

For the parameter θ , it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the target. With reference to the 2024 SBBIR Yearbook published by Kroll Inc. (previously Duff & Phelps), size premium differentials of 0.00%-1.64% were adopted to capture how much the market capitalization of each of the comparable companies is larger than the market value of the target.

The ratio of the market capitalization to enterprise value ε was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital (“WACC”) of the valuation subject. Since the size and country risk premium differentials “ θ ” are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio ε was used to apply an appropriate weighting on the parameter θ so that the capitalization rate was adjusted only to the extent of its equity portion. In other words, the ratio ε takes into account of the varying capital structures among the comparable companies. Market capitalization and enterprise value of comparable companies are obtained from Capital IQ.

The ratio of EBITDA to net operating profit after tax (“NOPAT”) was used as a scale factor α , which is applied in the adjustment of the EV/EBITDA multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. As EV/EBITDA was adopted as the pricing multiple in this valuation, EBITDA becomes an alternative measure of the benefits for enterprise value in the pricing multiple adjustment formula. Hence, α was used as a scale factor for the alternative measure of benefit. EBITDA and NOPAT of comparable companies are obtained from Capital IQ.

The details of the adjustments and Adjusted EV/EBITDA Ratios of the comparable companies are as follows:

Ticker	Name	Total Adjustment ($\alpha * \epsilon * \theta$)	Adjusted EV/EBITDA Ratio
SHSE:601116	Sanjiang Shopping Club Co., Ltd	5.15%	10.50
SEHK:6808	Sun Art Retail Group Limited.	11.74%	2.05
SHSE:605188	Jiangxi Guoguang Commercial Chains Co., Ltd.	10.63%	8.29
SEHK:814	Beijing Jingkelong Company Limited	0.00%	13.15
SHSE:603708	Jiajiayue Group Co., Ltd.	7.25%	4.66

The median of the adjusted EV/EBITDA Ratio is calculated at 8.29 and is adopted as the EV/EBITDA Ratio for the valuation on the market value of the equity interest in the Target.

Discount for Lack of Marketability (DLOM)

A factor to be considered in valuing closely held companies such as the Target is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

The 2024 Stout Restricted Stock Study is a widely used and authoritative empirical database that supports valuation professionals in determining marketability discount. It includes over 750 carefully screened restricted stock transactions, providing detailed data to compare with subject companies. This resource is recognized for its rigor, reliability, and industry acceptance, enabling professionals to make defensible and tailored discount determinations. In this case, we have made reference to the 2024 Edition Stout Restricted Stock Study of 779 private placement transactions of unregistered common stock issued by publicly traded companies. Among these, the companies are categorized by industry based on these case studies. The discount was calculated by dividing the difference between the private placement price and the market reference price by the market reference price, and the DLOM for retail trade industry is arrived at overall median discount of 13.20%.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from S&P Capital IQ as at the Valuation Date. We have also taken into account of DLOM. The calculation of the market value of the 35 Percent equity interest in the Target as at the Valuation Date is as follows:

	As at 31 December 2025 (RMB'000)
Trailing 12 months EBITDA of the Target*	140,593
Adjusted EV/EBITDA Ratio	8.29
Enterprise Value	1,161,185
<i>Add:</i> Cash and Cash Equivalents*	528,531
<i>Less:</i> Minority Interest*	–
<i>Less:</i> Debt and Lease Liabilities*	1,129,253
100 Percent Equity Interest in Target (marketable, non-controlling)	560,463
<i>Less:</i> Discount for Lack of Marketability (13.20%)	73,981
100 Percent Equity Interest in Target (non-marketable, non-controlling)	486,482
35 Percent Equity Interest in Target (non-marketable, non-controlling)	170,269

*Note:** The trailing 12 months EBITDA of the Target and the figures of Cash and Cash Equivalents, which includes total cash, short-term investments, term deposits and pledged bank deposits (if applicable), Minority Interest, Debt and Lease Liabilities were all were extracted from the financial statements of the Target for the years ended 31 December 2025 as provided by the Company.

VALUATION COMMENTS

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target, the Company and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and the Target, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

OPINION OF VALUE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 35 Percent Equity Interest in the Target as at the Valuation Date is reasonably stated as at the amount of **RMB170,269,000**.

LIMITING CONDITIONS

This report and opinion of value are subject to our Limiting Conditions as attached.

Yours faithfully,

For and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan

Executive Director

Note: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS). He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the Company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the Company/engagement parties.
2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.
3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.
4. The management and the Board of the Company/engagement parties have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.
5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.
6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.
8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.
9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/engagement parties (if any) because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results (if any) is dependent on actions, plans and assumptions of management.
10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.
11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.
14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.
15. This exercise is premised in part on the historical financial information and future forecast (if any) provided by the management of the Company/engagement parties and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.
16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.
17. The management or staff of the Company/engagement parties and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and Jones Lang LaSalle Corporate Appraisal and Advisory Limited in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the Company/engagement parties and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

VALUERS' PROFESSIONAL DECLARATION

The following valuers certify, to the best of their knowledge and belief, that:

- Information has been obtained from sources that are believed to be reliable. All facts which have a bearing on the value concluded have been considered by the valuers and no important facts have been intentionally disregarded.
- The reported analyses, opinions, and conclusions are subject to the assumptions as stated in the report and based on the valuers' personal, unbiased professional analyses, opinions, and conclusions. The valuation exercise is also bounded by the limiting conditions.
- The reported analyses, opinions, and conclusions are independent and objective.
- The valuers have no present or prospective interest in the asset that is the subject of this report, and have no personal interest or bias with respect to the parties involved.
- The valuers' compensation is not contingent upon the quantum of the value assessed, the attainment of a stipulated result, the occurrence of a subsequent event, or the reporting of a predetermined value or direction in value that favours the cause of the client.
- The analyses, opinions, and conclusions were developed, and this report has been prepared, in accordance with the International Valuation Standards published by the International Valuation Standards Council.
- The under mentioned persons provided professional assistance in the compilation of this report.

Simon M.K. Chan
Executive Director

Hunter Z.W. He
Senior Director

Carol X.T. Huang
Manager

Alice H.T. Zhong
Senior Analyst

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTEREST IN SECURITIES

(A) Directors' and chief executive's interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (c) pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(a) *The Company*

Name of Director	Number of ordinary shares held as personal interests	Approximate percentage of interests
NAGASHIMA Takenori	12,000	0.00462%
HISANAGA Shinya	30,000	0.01154%

(b) *AEON Co, the Company's ultimate holding company*

Name of Director	Number of ordinary shares held as personal interests (<i>note</i>)	Approximate percentage of interests
GOTO Toshiya	18,900	0.00072%
HISANAGA Shinya	6,390	0.00024%

Note: The shareholding information above is confirmed by the respective Directors as at the Latest Practicable Date.

(B) Substantial Shareholders' interests

Save as disclosed below, as at the Latest Practicable Date, none of the shareholders (other than Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Name of substantial shareholder	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares
AEON Co	157,536,000 <i>(note)</i>	60.59%

Note: These shares are held as to 155,760,000 shares by AEON Co and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS"). ACS is owned by AEON Co as to 294,888,000 shares representing 70.42% of the issued share capital of ACS. AEON Co is deemed to be interested in the 1,776,000 shares owned by ACS.

3. DIRECTORS' EMPLOYEMENT WITH SUBSTANTIAL SHAREHOLDER

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or proposed Directors is a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

	Name of substantial shareholder of the Company	Position in the substantial shareholder of the Company
GOTO Toshiya	AEON Co	Executive Officer
YOKOCHI Yasutoshi	AEON Co	General Manager of Overseas Company Management Department

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date and which was significant in relation to the business of the Group; and none of the Directors or proposed Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2025, being the date to which the latest published audited financial statements of the Company were made up.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or proposed Directors and their respective close associates was interested in any business which competed, or was likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

7. MATERIAL CONTRACTS

Save for (i) the sale and purchase agreement dated 17 May 2024 entered into between the Company as vendor and AEON Financial Service (Hong Kong) Co., Limited as purchaser in relation to the disposal by the Company of 1,654,500 shares in AEON Credit at the total consideration of HK\$9,993,180 (details of which are set out in the announcements of the Company dated 17 May 2024 and 20 May 2024) and (ii) the sale and purchase agreement dated 28 July 2025 entered between the Company as vendor and AEON Financial Service (Hong Kong) Co., Limited as purchaser in relation to the disposal by the Company of 1,346,000 shares in AEON Credit at the total consideration of HK\$9,960,400 (details of which are set out in the announcements of the Company dated 28 July 2025), the Group did not enter into any contract which was or might be material other than those entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries within the two years immediately preceding and including the Latest Practicable Date.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

9. EXPERT AND CONSENT

The following is the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent valuer
KPMG	Certified Public Accountants, Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance

As at the Latest Practicable Date, the above experts:

- (a) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinions or advice and references to its name, in the form and context in which they appear;
- (b) did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2025, being the date to which the latest published audited consolidated financial statements of the Company were made up.

10. GENERAL

- (1) The registered office of the Company is at G-4 Floor, Kornhill Plaza (South), 2 Kornhill Road, Hong Kong.
- (2) The head office and principal place of business of the Company is at Units 07-11, 26/F, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong.

- (3) The share registrar of the Company is Tricor Investor Services Limited, at 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (4) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aeonstores.com.hk) for a period of 14 days from the date of this Circular:

- (a) the Assets and Equity Exchange's prescribed form of equity transfer agreement;
- (b) the accountants' report of AEON GD from KPMG, the text of which is set out in Appendix II to this circular;
- (c) the report on the unaudited pro forma financial information of the Enlarged Group from KPMG, the text of which is set out in Appendix IV to this circular;
- (d) the valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix V to this circular; and
- (e) the written consent referred to in the section headed "Expert and Consent" of this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of AEON Stores (Hong Kong) Co., Limited (the “**Company**”) will be held at Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong on Friday, 15 May 2026 at 10:00 a.m. (the “**EGM**”) to consider and, if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution.

Words and expressions that are not expressly defined in this notice of extraordinary general meeting shall bear the same meaning as that defined in the circular to shareholders of the Company dated 29 April 2026.

ORDINARY RESOLUTION

1. “**THAT**

- (a) the general mandate to be granted in advance to the Directors to submit a Bid to acquire a total of 35% of the equity interests of Guangdong AEON Teem Co., Ltd.* (廣東永旺天河城商業有限公司) held by Guangdong Yuehai Teemall Department Stores Holdings Limited* (廣東粵海天河城百貨發展有限公司), by way of public tender, at a total consideration of no more than RMB170,269,000 (the “**Proposed Mandate**”), be and is hereby approved, confirmed and ratified; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) any one director of the Company be and is hereby authorized on behalf of the Company to do all such acts and sign all such documents and to enter into all such transactions and arrangements as may be necessary or expedient in order to ensure smooth implementation of and to give effect to the Bid and the transactions contemplated thereunder.”

By Order of the Board
AEON Stores (Hong Kong) Co., Limited Limited
CHAN Kwong Leung, Eric
Company Secretary

Hong Kong, 29 April 2026

Office and principal place of
business in Hong Kong:
Units 07-11, 26/F
CDW Building
388 Castle Peak Road, Tsuen Wan
New Territories, Hong Kong

Registered office:
G-4 Floor
Kornhill Plaza (South)
2 Kornhill Road
Hong Kong

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint one or (if he is a holder of two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, form(s) of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the office of the Company's share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof.
3. The register of members of the Company will be closed from 12 May 2026 to 15 May 2026, both days inclusive, for the purpose of determining Shareholders' entitlement to attend and vote at the EGM, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on 11 May 2026. The record date for determining the eligibility of the Shareholders to attend and vote at the EGM will be Friday, 15 May 2026.

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but should there be more than one of such joint holders present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. Voting of the ordinary resolution set out in this notice will be by way of poll.
6. Reference to times and dates in this notice are to Hong Kong times and dates.
7. If Typhoon Signal No. 8 or above is hoisted or remains hoisted at 7:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the Company's website at www.aeonstores.com.hk and the Stock Exchange's website at www.hkexnews.hk to notify shareholders of the Company of the date, time and place of the rescheduled EGM.

The EGM will be held on 15 May 2026 as scheduled when an Amber or a Red Rainstorm Warning Signal or a Black Rainstorm Warning Signal is in force in Hong Kong at any time on that day. Shareholders should decide on their own whether they would attend the EGM under bad weather conditions bearing in mind their own situations.