
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) CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO OF THE CARD ACQUIRING MERCHANT AGREEMENT
AND
RENEWAL OF PREVIOUS AGREEMENTS
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 22 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 23 to 24 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 43 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at President's Suite, World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 30 July 2021 at 9:30 a.m. is set out on pages N-1 to N-4 of this circular. Whether or not you are able to attend and vote at the extraordinary general meeting in person, 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 Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, 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 at the extraordinary general meeting or any adjourned meeting if you so wish.

13 July 2021

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DEFINITIONS

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

“AEON”	AEON Co., Ltd., a company incorporated in Japan with limited liability and the issued shares of which are listed on the Tokyo Stock Exchange
“AEON Credit”	AEON Credit Service (Asia) Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (stock code: 900)
“AEON Delight”	永旺永樂(中國)物業服務有限公司, a company with limited liability established under the laws of the PRC and an indirect non-wholly-owned subsidiary of AEON
“AEON Delight (Shanghai)”	永旺永樂(上海)企業管理有限公司, a company with limited liability established under the laws of the PRC and an indirect non-wholly-owned subsidiary of AEON
“AEON Delight Group”	AEON Delight, together with its PRC incorporated subsidiaries, related and affiliate corporations
“Announcements”	the Master Agreement Announcement, the announcement of the Company in relation to the Previous Master Services Agreement dated 11 December 2018, and the announcement of the Company in relation to the Previous Master Trademark Licence Agreement dated 31 December 2018
“Board”	board of Directors
“Business”	the business of procuring and selling merchandise (including but not limited to fashion, food, and household products) to retail customers in the general merchandise stores and supermarket stores operated by the Group in Hong Kong and the PRC
“Card”	a credit or debit card bearing the mark(s) and/or hologram(s) in the form from time to time specified by the respective Card Associations and issued by a member of the Card Association
“Card Acquiring Merchant Agreement”	the card acquiring merchant agreement entered into by the Company and AEON Credit in relation to card acquiring services provided by AEON on 30 June 2021
“Card Association”	Mastercard, Visa, CUP, JCB and/or any other card associations as the parties may mutually agree to be included in the Card Acquiring Merchant Agreement from time to time
“Cardholder”	an individual person carrying, tapping, using or showing a Card

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“Cardholder Present Sale”	a Transaction where a Card is physically presented to the Company by the Cardholder as the means of payment at the time of a sale and where the Company can evidence the presence of the Card presented by chip read, Card swipe through an EDC Terminal, contactless tap or by imprint of the Card using a Manual Sales Draft
“CCT Agreements”	the Card Acquiring Merchant Agreement, the Master Services Agreement, and the Master Trademark Licence Agreement
“Chargeback”	a demand by a Card issuing financial institution or a Card Association to be repaid a sum of money paid by AEON Credit in respect of a Transaction which has been previously settled between the Company and AEON Credit and for which AEON Credit may or may not have been paid by that Card Association
“Condition Precedents”	approval of the relevant CCT Agreements by the Company’s Independent Shareholders and compliance with all applicable requirements under the Listing Rules by the parties to the relevant CCT Agreements
“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
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Credit Slip”	a paper in the form provided by and at the cost of AEON for use by the Company evidencing a monetary refund on a price adjustment or a monetary refund due to the cancellation of a Transaction by the Company and which refund is to be credited to the Cardholder’s Card account
“CUP”	China UnionPay Co., Limited
“Director(s)”	the directors of the Company

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“EDC Terminal”	means an electronic data capture device either owned, provided by and at the cost of AEON Credit for the Company’s use under the Card Acquiring Merchant Agreement or otherwise approved by AEON Credit to be used for capturing Card details for obtaining authorizations and submitting Transactions to AEON Credit. Such device enables the Company to insert, swipe, tap, or manually enter the required Card information, and to transmit such data to and receive such data from AEON Credit for authorization and further processing
“EGM”	the extraordinary general meeting of Shareholders to be held at President’s Suite, World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 30 July 2021 at 9:30 a.m. to consider resolutions set out in the EGM Notice, and any adjournment of such EGM
“EGM Notice”	the notice included in this circular in respect of the EGM to consider and, if though fit, approved the CCT Agreements and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty, Mr. Chow Chi Tong and Mr. Hideto Mizuno
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the CCT Agreements
“Independent Shareholders”	Shareholders other than those who have a material interest in the relevant CCT Agreement(s)
“JCB”	JCB International Co., Limited
“Latest Practicable Date”	7 July 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Lowest Fee Rate”	the weighted average commission rate which is calculated based on the card acquisition amount processed by the existing independent service provider for 2019 and 2020 multiplied by the respective Merchant Discount Rates chargeable depending on the card type and business type (if applicable)
“Master Agreement”	the agreement dated 3 April 2020 entered into between the Company and AEON Credit in respect of certain commission payment transactions
“Master Agreement Announcement”	the announcement of the Company dated 3 April 2020 in relation to the Master Agreement
“Master Services Agreement”	the master services agreement conditionally entered into between the Company and AEON Delight on 30 June 2021
“Master Trademark Licence Agreement”	the Master Trademark Licence Agreement conditionally entered into between the Company and TopV on 30 June 2021
“Mastercard”	Mastercard Incorporated
“Merchant Discount Amount”	applicable Merchant Discount Rate multiples by the Transaction amount payable to the Company for the relevant Transaction
“Merchant Discount Rates”	discount rates ranging from 1.15% to 1.90%
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Previous Agreements”	the Previous Master Services Agreement and the Previous Master Trademark Licence Agreement
“Previous Master Services Agreement”	the master services agreement entered into between the Company and AEON Delight (Shanghai) on 11 December 2018
“Previous Master Trademark Licence Agreement”	the Master Trademark Licence Agreement entered into between the Company and TopV on 31 December 2018
“RMB”	renminbi, the lawful currency of the PRC

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“Services”	the services to be provided by the AEON Delight Group pursuant to the Master Services Agreement, including comprehensive building/facilities management, maintenance and cleaning services, management consultation, business services, research, development and production of computer hardware and software, data processing and such other services in relation to retail stores, offices and/or other facilities/ establishments operated by the Group in Hong Kong, Macau and the PRC as may be agreed by the parties from time to time
“Shareholder(s)”	registered holders of the shares in the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Territory”	Hong Kong and the PRC
“TopV”	AEON TopValu Co., Ltd., a company incorporated in Japan with limited liability
“TopV Group”	TopV and its subsidiaries
“TopV Products”	the products which are developed as AEON and its subsidiaries’ private brand merchandises and bear one or more TopValu Trademarks
“TopValu Trademarks”	trademarks and logos owned by AEON and licensed to members of the Group from time to time pursuant to the Master Trademark Licence Agreement
“Transaction”	the act of a Cardholder making purchase of such merchandise or services from the Company or its authorised agent which is initiated and concluded through the Cardholder Present Sale whereby payment thereof shall be charged to the Cardholder’s Card account
“Visa”	Visa Incorporated
“%”	per cent.



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. Isao SUGAWARA (*Managing Director*)
Mr. CHAK Kam Yuen
Mr. Takenori NAGASHIMA
Mr. Shinya HISANAGA

Registered office:

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

Non-executive Directors:

Mr. Isei NAKAGAWA (*Chairman*)
Ms. Yuki HABU
Mr. Makoto FUKUDA

Independent Non-executive Directors:

Ms. CHAN Yi Jen Candi Anna
Ms. LO Miu Sheung, Betty
Mr. CHOW Chi Tong
Mr. Hideto MIZUNO

13 July 2021

**(1) CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO OF THE CARD ACQUIRING MERCHANT AGREEMENT
AND
RENEWAL OF PREVIOUS AGREEMENTS
AND**

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 30 June 2021 in relation to, among other things, the CCT Agreements that the Company has conditionally entered into, namely:

- the Card Acquiring Merchant Agreement with AEON Credit in respect of card acquiring services to be provided by the AEON Credit to the Company;

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- the Master Services Agreement with AEON Delight to renew the Previous Master Services Agreement which will expire on 31 December 2021; and
- the Master Trademark Licence Agreement with TopV to renew the Previous Master Trademark Licence Agreement which will expire on 31 December 2021.

The purpose of this circular is to provide you with (i) further information on the details of the CCT Agreements and the transactions contemplated thereunder; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules.

THE CARD ACQUIRING MERCHANT AGREEMENT

Reference is made to the Master Agreement Announcement. Under the Master Agreement, AEON Credit provides the Company with services relating to credit purchase facilities, card instalment plan, other payment solutions and other related services made available by AEON Credit to customers of the Company for making purchases of goods and/or services at the Company's stores mainly using co-branded credit cards issued by AEON Credit.

At the same time, the Company has been engaging a third party service provider to provide card acquiring services whereby customers of the Company may conveniently select their favourite payment solutions (i.e. debit or credit cards, or devices storing the same electronically, issued by entities other than AEON Credit) for making purchases of goods and/or services at the Company's stores in Hong Kong.

With a view to explore the possibility of lowering the costs of card acquiring services, the Company invited four service providers, including AEON Credit, the existing independent service provider and two other service providers which are parties independent of the Company and its connected persons, to submit tender for the said card acquiring services and AEON Credit offered the Lowest Fee Rate. As such, the Company intends to migrate the said card acquiring services to be provided by AEON Credit solely, subject to transition and on a non-exclusive basis. On 30 June 2021, the Company and AEON Credit have conditionally entered into the Card Acquiring Merchant Agreement so as to enable AEON Credit to provide the said card acquiring services. The entering into the Card Acquiring Merchant Agreement shall be without prejudice to the validity of, the continuing connected transactions governed by, the Master Agreement. Whilst the Master Agreement covers card services provided by AEON Credit in respect of cards issued by AEON Credit, the Card Acquiring Merchant Agreement covers card services provided by AEON Credit in respect of cards issued by entities other than AEON Credit.

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Principal terms

The principal terms of the Card Acquiring Merchant Agreement are as follows:

Date: 30 June 2021

Parties: (a) the Company; and
(b) AEON Credit

Term: Subject to fulfilment of the Condition Precedents, the term of the Card Acquiring Merchant Agreement shall commence on 16 August 2021 or a date after approval of the Card Acquiring Merchant Agreement by the Independent Shareholders, whichever is later, for a period of three years, unless terminated earlier in accordance with the terms of the Card Acquiring Merchant Agreement. If the Condition Precedents have not been fulfilled as certified by the respective party, the Card Acquiring Merchant Agreement shall immediately terminate and the parties shall have no claims thereunder save as to any antecedent breach.

Honouring Cards: The Company shall accept and honour all Cards presented by a Cardholder for payment of the Company's merchandise or services.

Payment: In respect of each completed Transaction using a Card issued by entities other than AEON Credit, AEON Credit shall pay to the Company the amount of each Transaction less the applicable Merchant Discount Amount within two business days upon completion of such Transaction (conditional on receipt of such Sales Draft and/or Manual Sales Draft, as the case may be) to a designated bank account of the Company or by cheque or in such manner mutually agreed between the Company and AEON Credit.

Disputes and Chargeback: If AEON Credit is aware of any Chargeback, it shall forthwith inform the Company and advise the Company of any possible mechanism that the Company may pursue to defend against such Chargeback subject to provision of reasonable supporting documents and/or information by the Company.

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If any dispute arises or exists between the Company and a Cardholder or any other person in relation to any merchandise or services, or any representation or obligation made in connection with a Transaction, the Company shall at all times to indemnify AEON Credit against all claims, and to hold AEON Credit harmless from all costs, losses and liability resulting from such disputes and suffered by AEON Credit, provided that there is no fault or delay on the part of AEON Credit contributing to the loss or claim.

Termination:

The Card Acquiring Merchant Agreement may be terminated with immediate effect by either party if the other party is involved in certain activities such as (i) material breach of the Card Acquiring Merchant Agreement; (ii) liquidation, receivership; and (iii) fraudulent activity or, dishonest or money laundering or other illegal activities; or if the other party discontinues all its operations. The Card Acquiring Merchant Agreement may also be terminated by either party by 90 days' prior written notice to the other party. AEON Credit may also terminate the Card Acquiring Merchant Agreement immediately by written notice to the Company if the Company's account remains dormant with AEON Credit for more than three consecutive months.

The transaction amount and annual cap:

Save for the Merchant Discount Amount and, if any, charges payable arising from disputes and Chargeback as described above, no other commission, fees and/or charges are payable by the Company in respect of the card acquiring services to be provided by AEON Credit under the Card Acquiring Merchant Agreement.

The Directors estimate that the maximum amount payable by the Company to AEON Credit relating to the Card Acquiring Merchant Agreement on an annual basis will not exceed the annual caps below:

Financial Year/Period	Annual cap <i>HK\$ million</i>
16 August to 31 December 2021	10.6
1 January to 31 December 2022	21.8
1 January to 31 December 2023	23.2
1 January to 15 August 2024	12.2

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In arriving at the above annual caps, the Directors have taken into account (i) the historical transaction amounts of customers' card payments through the card acquiring services provided by a third party service provider and relevant charges paid to the third party service provider as set out below; (ii) the Company's expected business growth generally and from expansion of store network; (iii) the increase in the volume of the relevant transactions of customers' card payments (excluding card payments pursuant to the Master Agreement); and (iv) potential increase in card acquisition transaction amount resulting from, among other things, sales or card promotions, which in turn might lead to higher card charges payable to AEON Credit.

Historical transaction amount:	Financial Year	Transaction amounts of customers' payment through credit cards <i>HK\$ million</i>	Charges paid to independent third party service provider <i>HK\$ million</i>
	1 January to 31 December 2019	1,297.3	19.7
	1 January to 31 December 2020	1,368.6	20.5

THE MASTER SERVICES AGREEMENT

Reference is made to the announcement of the Company dated 11 December 2018 in relation to the Previous Master Services Agreement. On 30 June 2021, the Company and AEON Delight have conditionally entered into the Master Services Agreement to renew the Previous Master Services Agreement which will expire on 31 December 2021.

Principal terms

The principal terms of the Master Services Agreement are as follows:

- Date: 30 June 2021
- Parties: (a) the Company; and
(b) AEON Delight

LETTER FROM THE BOARD

- Term:** Subject to the fulfilment of the Condition Precedents, the term of the Master Services Agreement shall be a period of three years commencing on 1 January 2022 and expiring on 31 December 2024 unless terminated earlier in accordance with the terms of the Master Services Agreement. If the Condition Precedents have not been fulfilled as certified by the respective party, the Master Services Agreement shall immediately terminate and the parties shall have no claims thereunder save as to any antecedent breach.
- Provision of services:** Pursuant to the Master Services Agreement, where a member of the AEON Delight Group is selected through relevant procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AEON Delight Group may from time to time (and AEON Delight shall procure such member of the AEON Delight Group to) enter into separate contracts setting out the detailed terms under which the relevant member of the AEON Delight Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on terms not less favourable to which the Company and/or the relevant member of the Group procures the Services from independent third parties.
- Subcontracting and procurement of services:** In fulfilling its obligations under any separate contracts entered into pursuant to this Agreement, the relevant member of the AEON Delight Group shall not subcontract to or procure the provision of the Services by any third party unless such member of the AEON Delight Group shall have first obtained the prior written consent of the Company and/or the relevant member of the Group, and provided that such third party shall be required to render such Services in accordance with all the terms of this Agreement and the relevant separate contract, and such member of the AEON Delight Group shall remain primarily liable for the performance of its obligations hereunder.

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The transaction amount and annual cap: The Directors estimate that the maximum amount payable by the Company to AEON Delight relating to the Master Services Agreement on an annual basis will not exceed the annual caps below:

Financial Year/Period	Annual cap <i>RMB million</i>
1 January to 31 December 2022	40.5
1 January to 31 December 2023	49.5
1 January to 31 December 2024	54.7

In arriving at the above annual caps, the Directors have taken into account (i) historical transaction amounts under the Previous Master Services Agreement for the two years ended 31 December 2020 as set out below; (ii) the expected business growth of the Group (including the opening of new stores) and based on the assumption that AEON Delight will win relevant tenders and be selected for the provision of certain Services for existing and new stores. Taking into account the above, the Directors consider that the annual caps for the Master Services Agreement are fair and reasonable. The Directors consider that the historical transaction amounts for the Previous Master Services Agreement is only one of the factors in arriving at the proposed annual caps for the Master Services Agreement. The other factors such as AEON Delight winning the tenders and the Group's expected business growth take a heavier weight in the process of determining the proposed annual caps.

Historical transaction amounts under Previous Master Services Agreement:	Financial Year	Annual Cap under Previous Master Services Agreement <i>RMB million</i>	Actual Transaction Amount <i>RMB million</i>	Utilization Rate of Annual Cap
	1 January to 31 December 2019	45	29.2	64.89%
	1 January to 31 December 2020	45	27.4	60.89%

Procurement Process

In relation to the procurement process, the relevant members of the Group may, in their sole and absolute discretion, invite the AEON Delight Group to tender to provide certain Services. If the AEON Delight Group is invited to tender, the relevant member of

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the Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders.

After considering the abovementioned factors, the management of the relevant member of the Group will then decide on which bidder to engage and enter into a services contract with for the provision of Services. By implementing the above methods and procedures, the Directors consider that the Company has implemented sufficient measures to ensure that the transactions under the Master Services Agreement will be conducted on normal commercial terms or terms not less favourable to which the relevant members of the Group procures from independent third parties.

THE MASTER TRADEMARK LICENCE AGREEMENT

Reference is made to the announcement of the Company dated 31 December 2018 in relation to the Previous Master Trademark Licence Agreement. On 30 June 2021, the Company and AEON have conditionally entered into the Master Trademark Licence Agreement to renew the Previous Master Trademark Licence Agreement which will expire on 31 December 2021.

Principal terms

The principal terms of the Master Trademark Licence Agreement are as follows:

Date: 30 June 2021

Parties: (a) the Company; and
(b) TopV

Term: Subject to the fulfilment of the Condition Precedents, the term of the Master Trademark Licence Agreement shall be a period of three years commencing on 1 January 2022 and expiring on 31 December 2024 unless terminated earlier in accordance with the terms of the Master Trademark Licence Agreement. If the Condition Precedents have not been fulfilled as certified by the respective party, the Master Trademark Licence Agreement shall immediately terminate and the parties shall have no claims thereunder save as to any antecedent breach.

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Nature of transactions: Pursuant to the Master Trademark Licence Agreement, TopV agreed to (i) grant (and/or procure other members of the TopV Group to grant) to members of the Group the licence to use the TopValu Trademarks and (ii) provide (and/or procure other members of the TopV Group to provide) the ancillary services to the members of the Group on the terms set out in the Master Trademark Licence Agreement. The transactions under the Master Trademark Licence Agreement will be on normal commercial terms, on an arm's length basis and on terms not less favourable to which the members of the Group procures such services from independent third parties, or to which members of the TopV Group provides such services to other parties.

Licence fee: In consideration to the grant of the licence to use the TopValu Trademarks and the ancillary services set out below, the relevant member of the Group shall pay to the relevant member of the TopV Group a licence fee equivalent to 7% of the amount of purchase costs of the TopV Products (excluding any value added tax or other tax or freight expenses) supplied by manufacturers or suppliers to the Group. A default interest of 1% per annum on any overdue amount shall be payable for the period from the original due date to the date of payment in full.

Trademarks licence: The Group shall be granted the non-exclusive right and licence to use the TopValu Trademarks in the Territory for the purpose of or in connection with the Business, including but not limited to applying or otherwise using the TopValu Trademarks (or procuring the TopValu Trademarks to be applied) on the products supplied by manufacturers or suppliers to the Group and the marketing, sale and promotional materials in connection with the Business. Members of the TopV Group shall enter into specific licencing agreements with the relevant members of the Group, which adopt the terms and conditions set out in the Master Trademark Licence Agreement and sets out the detailed terms, including but not limited to the arrangements relating to payment of the licence fee.

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Ancillary services and control:

In addition to the granting of the licence to use the TopValu Trademarks, the TopV Group shall provide to the Group ancillary services and shall be entitled to exercise control including the following:

- (a) conduct market research, planning and development of products;
- (b) establish product specifications;
- (c) provide to members of the Group with information on product specifications, product cost and related expenses;
- (d) manage production and conduct quality control on products;
- (e) provide information on promotion; and
- (f) any other services in connection with the above.

The Group shall obtain prior written approval from the relevant members of the TopV Group before outsourcing to any third party the manufacturing of the TopV Products. Other than consumers, the Group shall not sell the TopV Products to any third party other than those designated by the TopV Group.

Termination:

The Master Trademark Licence Agreement may be terminated by a party by 90 days' prior written notice to the other party. On termination, any accrued rights and obligations of the parties under the Master Trademark Licence Agreement shall not be affected.

The transaction amount and annual cap:

The Directors estimate that the maximum amount payable by the Company to TopV relating to the Master Trademark Licence Agreement on an annual basis will not exceed the annual caps below:

Financial Year/Period	Annual cap <i>HK\$ million</i>
1 January to 31 December 2022	32.7
1 January to 31 December 2023	41.8
1 January to 31 December 2024	53.7

LETTER FROM THE BOARD

In arriving at the above annual caps, the Directors have taken into account (i) historical transaction amounts under the Previous Master Trademark Licence Agreement for the two years ended 31 December 2020 as set out below; (ii) the historical growth in the retail business of the Group; (iii) the expected growth of the Group's business and the expected volume and costs of the Group's purchase of products which bear the TopValu Trademarks; (iv) potential further increase of the purchase depending on the Group's business expansion plans and operational needs from time to time; and (v) the possibility of appreciation of the RMB. Taking into account the above, the Directors consider that the annual caps for the Master Trademark Licence Agreement are fair and reasonable. The Directors consider that the historical transaction amounts for the Previous Master Trademark Licence Agreement is only one of the factors in arriving at the proposed annual caps for the Master Trademark Licence Agreement. The other factors such as the Group's business expansion plans and need for Topvalu products take a heavier weight in the process of determining the proposed annual caps.

Historical transaction amounts under Previous Master Trademark Licence Agreement:	Financial Year	Annual Cap under Previous Trademark Licence Agreement <i>HK\$ million</i>	Actual Transaction Amount <i>HK\$ million</i>	Utilization Rate of Annual Cap
	1 January to 31 December 2019	20	9.2	46%
	1 January to 31 December 2020	28	12.3	43.93%

REASONS FOR AND BENEFITS OF ENTERING INTO EACH OF THE CCT AGREEMENTS

The Card Acquiring Merchant Agreement

By an invitation to tender, the Company invited four services providers, including AEON Credit and three other independent third party service providers, to offer card acquiring services to the Company. Each of these service providers offers a service fee rates scheme in connection with its card acquiring services and AEON Credit offered the Lowest Fee Rate among all these service providers, the Company therefore entered into the Card Acquiring Merchant Agreement. Whilst the Master Agreement covers card services provided by AEON Credit in respect of cards issued by AEON Credit, the Card Acquiring Merchant Agreement covers card services provided by AEON Credit in respect

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of cards issued by entities other than AEON Credit. The Directors consider that the procurement of AEON Credit's services pursuant to the Card Acquiring Merchant Agreement will save the Company's costs and further contribute positively in building sales and extending the Company's customer base and the Directors expect that there will be continual growth in sales attributable to the various payment solutions and related services to be provided by AEON Credit to customers of the Company.

The Directors, excluding the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee of this circular after taking into consideration the advice of the Independent Financial Adviser, are of the view that (i) the Card Acquiring Merchant Agreement and the transactions contemplated thereunder are on normal commercial terms; (ii) the terms of the Card Acquiring Merchant Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iii) the Card Acquiring Merchant Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of the Company's business.

At a Board meeting convened to consider the Card Acquiring Merchant Agreement, Ms. Yuki Habu, Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga and Mr. Akinori Yamashita were regarded as potentially having a material interest in the Card Acquiring Merchant Agreement and accordingly abstained from voting on the relevant resolutions.

The Master Services Agreement

The Group currently operates general merchandise stores and a shopping mall in Hong Kong and Guangdong Province of the PRC which from time to time require the Services in its ordinary and usual course of business. The Group selects providers for such Services with reference to prevailing market conditions and where appropriate, based on a procurement process conducted at arm's length basis, and make their selection based on normal commercial considerations.

Pursuant to the Previous Master Services Agreement, the Group has procured such services from members of the AEON Delight Group. The Previous Master Services Agreement will expire on 31 December 2021. The Directors consider that the continued engagement of members of the AEON Delight Group to provide the Services in the ordinary and usual course of business, subject to members of the AEON Delight Group being selected under the Group's procurement process as described above, would allow the Group to import leading service knowhow from the AEON Delight Group, improve the Group's service quality to customers, enhance customer satisfaction when shopping at the Group's stores, reduce the Group's efforts in service alignment and enhance the Group's costs control and service level upgrading. The Directors are of the view that the entering into of the Master Services Agreement would continue to ensure certainty in the entering of any future transactions with the AEON Delight Group for the provision of Services and also reduce the compliance procedures for each such future transaction.

LETTER FROM THE BOARD

The terms of the Master Services Agreement have been agreed after arm's length negotiations between the Company and AEON Delight. The Directors, excluding the independent non-executive Directors whose view have been set out in the letter from the Independent Board Committee of this after taking into consideration the advice of the Independent Financial Adviser, are of the view that (i) the Master Services Agreement and the transactions contemplated thereunder are on normal commercial terms; (ii) the terms of the Master Services Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iii) the Master Services Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of the Company's business.

At a Board meeting convened to consider the Master Services Agreement, Ms. Yuki Habu, Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga and Mr. Akinori Yamashita were regarded as potentially having a material interest in the Master Services Agreement and accordingly abstained from voting on the relevant resolutions.

The Master Trademark Licence Agreement

Pursuant to the Previous Master Trademark Licence Agreement, the Group have been granted the non-exclusive right and licence to use the TopValu Trademarks. The Previous Master Trademark Licence Agreement will expire on 31 December 2021. The Directors consider that the TopValu Trademarks, which are well known in Hong Kong and the PRC, are essential to the operations and success of the Group, and obtaining the licence to use the TopValu Trademarks by the Group on its TopV Products would enable the Group to have better control on the selections of its products as well as its manufacturers and suppliers as it will enable the Group to initiate product development and purchase orders based on its needs and targeted market in the Territory. As the Group will be working directly with its manufacturers and suppliers on the purchase orders, the Group will be able to build and expand on relationships with its manufacturers and suppliers. As a result, the Group may have better control and savings on the merchandise costs of the TopV Products and be able to further its business development in Hong Kong and the PRC. The Directors are of the view that it is in the interest of the Company and its Shareholders as a whole to continue obtaining non-exclusive right and licence to use the TopValu Trademarks by renewing the Previous Master Trademark Licence Agreement.

The terms of the Master Trademark Licence Agreement have been reached after arm's length negotiations between the Company and TopV. The Directors, excluding the independent non-executive Directors whose view have been set out in the letter from the Independent Board Committee of this after taking into consideration the advice of the Independent Financial Adviser, are of the view that (i) the Master Trademark Licence Agreement and the transactions contemplated thereunder are on normal commercial terms; (ii) the terms of the Master Trademark Licence Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iii) the Master Trademark Licence Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of the Company's business.

LETTER FROM THE BOARD

At a Board meeting convened to consider the Master Trademark Licence Agreement, Ms. Yuki Habu, Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga and Mr. Akinori Yamashita were regarded as potentially having a material interest in the Master Trademark Licence Agreement and accordingly abstained from voting on the relevant resolutions.

INTERNAL CONTROL

As part of the Group's internal control systems, the Company's Connected Party Transaction Panel, comprising the administration director, finance general manager, legal senior manager and the finance/administration general managers of two subsidiaries of the Company, will assist the Directors to review and monitor all connected transactions of the Group including the transactions under each of the CCT Agreements. The Connected Party Transaction Panel generally holds meetings biweekly to review and monitor all continuing connected transactions of the Group. Whilst the finance departments of the relevant members of the Group will conduct the initial level of control over the transaction and the transaction amounts under each of the CCT Agreements to ensure they are conducted within the frameworks and the annual caps of the relevant CCT Agreements. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under each CCT Agreement to ensure the transactions are conducted within the framework of the relevant CCT Agreement and monitor the utilization of the annual caps for the relevant CCT Agreement to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

INFORMATION OF THE PARTIES

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

AEON Credit is principally engaged in the provision of consumer finance services, which include the issuance of credit cards and the provision of personal loan financing, insurance agency and brokerage business, and microfinance business. It is a subsidiary of AEON.

AEON Delight is principally engaged in business management and has been granted the rights to manage the business operations of its related and affiliated corporations in the PRC. Members of the AEON Delight Group is principally engaged in the comprehensive facility management services, including a wide range of facilities management, maintenance, consulting, cleaning, security, and material/supplies sourcing services. It is a subsidiary of AEON.

TopV is principally engaged in the development, procurement, and supply of a variety of merchandise, including fashion, household, and food items. It is a subsidiary of AEON.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, each of AEON Credit, AEON Delight, and TopV is a connected person of the Company by virtue of it being a subsidiary of AEON, the controlling shareholder of the Company. Accordingly, the transactions contemplated under each of the CCT Agreements constitute continuing connected transactions of the Company under the Listing Rules.

As the transactions under the Card Acquiring Merchant Agreement and the Master Agreement are entered into by the same parties and are similar in nature, the transactions under these two agreements shall be aggregated for the purpose of calculating the annual caps and determining the Listing Rules requirements applicable to the Card Acquiring Merchant Agreement.

As the highest of the applicable percentage ratios in respect of the aggregated annual caps for the Card Acquiring Merchant Agreement and the respective annual cap under each of the Master Services Agreement and the Master Trademark Licence Agreement are more than 5%, the transactions contemplated under each of the CCT Agreements constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements and the annual review requirements under Chapter 14A of the Listing Rules.

FORMATION OF AN INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the terms of the CCT Agreements and the relevant annual caps of the underlying transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on pages 23 to 24 of this circular, which contains its recommendation to the Independent Shareholders and the letter from the Independent Financial Adviser set out on pages 25 to 43 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

EGM

Ordinary resolutions approving each of the CCT Agreements and the relevant annual caps of the underlying transactions contemplated thereunder shall be proposed at the EGM.

In view of AEON's interests in each of the CCT Agreements, AEON and its associates are required to abstain and shall abstain from voting on the ordinary resolutions to be proposed at the EGM to approve CCT Agreements and the relevant annual caps of the

LETTER FROM THE BOARD

underlying transactions contemplated thereunder. Ms. Yuki Habu, Mr. Isei Nakagawa, Mr. Takenori Nagashima and Mr. Shinya Hisanaga are shareholders or ex-employees of AEON and are regarded as potentially having a material interest in the CCT Agreements, they have accordingly abstained from voting on the relevant resolutions at the Board meeting convened to consider the CCT Agreements. For the same reason, they will also abstain from voting on the relevant resolutions as a shareholder of the Company at the EGM. Apart from the above persons, the Directors are not aware of any other shareholders of the Company who are required to abstain from voting on the resolutions at the EGM.

A notice convening the EGM to be held at President's Suite, World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 30 July 2021 at 9:30 a.m. is set out on pages N-1 to N-4 of this circular.

A form of proxy for the EGM is enclosed herewith. Whether or not Shareholders are able to attend and vote at the EGM in person, they 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 Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude Shareholders from subsequently attending and voting at the meeting or any adjourned meeting if they so wish.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 July 2021 to 30 July 2021 (both days inclusive) in order to determine entitlements for attending and voting at the EGM. In order to qualify for attending and voting at the EGM, all share transfer accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 26 July 2021.

RECOMMENDATION

The Directors (including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee in this circular after taking into consideration the advice of the Independent Financial Adviser) consider that the continuing connected transactions contemplated under the CCT Agreements have been conducted by the Company in its ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the relevant annual caps for the transactions contemplated under the CCT Agreements are fair and reasonable. The Directors therefore recommend the Independent Shareholders to vote in favour of the relevant resolution set out in the notice of the EGM.

LETTER FROM THE BOARD

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

By Order of the Board
AEON Stores (Hong Kong) Co., Limited
Isei NAKAGAWA
Chairman



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)

13 July 2021

To: the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO OF THE CARD ACQUIRING MERCHANT AGREEMENT
AND
RENEWAL OF PREVIOUS AGREEMENTS**

We refer to the circular of the Company dated 13 July 2021 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed to advise the Independent Shareholders as to whether, in our opinion, the transactions contemplated under the CCT Agreements are conducted by the Company in its ordinary and usual course of business, are on normal commercial terms, are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. In this connection, Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the CCT Agreements.

We wish to draw your attention to the letter from the Board set out on pages 6 to 22 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 25 to 43 of the Circular which contains its opinion in respect of transactions contemplated under the CCT Agreements.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of the Independent Financial Adviser and its recommendation in relation thereto, we consider that the transactions contemplated under the CCT Agreements are conducted by the Company in its ordinary and usual course of business, are on normal commercial terms, are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the relevant resolutions set out in the notice of the EGM.

Yours faithfully,
Independent Board Committee of
AEON Stores (Hong Kong) Co., Limited
CHAN Yi Jen Candi Anna
LO Miu Sheung, Betty
CHOW Chi Tong
Hideto MIZUNO
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the CCT Agreements and the annual caps, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

13 July 2021

*To: the Independent Board Committee and the Independent Shareholders of
AEON Stores (Hong Kong) Co., Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS ENTERING INTO OF THE CARD ACQUIRING MERCHANT AGREEMENT AND RENEWAL OF PREVIOUS AGREEMENTS

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the terms of the CCT Agreements entered into by the Company on one hand and (i) AEON Credit; (ii) AEON Delight; and (iii) TopV (the “**Counterparties**”) on the other and the relevant annual caps of the underlying transactions contemplated thereunder (the “**Annual Caps**”), details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 13 July 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As stated in the letter from the Board, as at the Latest Practicable Date, AEON is the controlling shareholder of the Company and each of AEON Credit, AEON Delight and TopV is a connected person of the Company by virtue of it being a subsidiary of AEON. Accordingly, the transactions contemplated under each of the CCT Agreements constitute continuing connected transactions of the Company under the Listing Rules.

As the transactions under the Card Acquiring Merchant Agreement and the Master Agreement are entered into by the same parties and are similar in nature, the transactions under these two agreements shall be aggregated for the purpose of calculating the annual caps and determining the Listing Rules requirements applicable to the Card Acquiring Merchant Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the highest of the applicable percentage ratios in respect of the aggregated annual caps for the Card Acquiring Merchant Agreement and the respective annual caps under each of the Master Services Agreement and the Master Trademark Licence Agreement are more than 5%, the transactions contemplated under each of the CCT Agreements constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty, Mr. Chow Chi Tong and Mr. Hideto Mizuno, has been formed to advise the Independent Shareholders as to whether the terms of the CCT Agreements and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, AEON Credit, AEON Delight and TopV or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the CCT Agreements and the Annual Caps. Apart from the normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, AEON Credit, AEON Delight and TopV or their respective substantial shareholders or associates.

During the past two years, we acted as the independent financial adviser and issued an opinion letter regarding the Company's continuing connected transactions relating to the tenancy agreement as announced on 17 August 2020. The past engagement was limited to providing independent advisory services to the Company pursuant to the Listing Rules. Under the past engagement, we received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between Somerley on one hand and the Group, AEON Credit, AEON Delight and TopV, and their respective substantial shareholders and/or associates on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the transactions contemplated under the CCT Agreements (the "**Continuing Connected Transactions**").

In formulating our opinion, we have reviewed, amongst others, the CCT Agreements, the annual report of the Company for the year ended 31 December 2020, the announcement of the Company dated 30 June 2021 in relation to the entering into of the CCT Agreements (the "**Announcement**") and the information contained in the Circular. We have also discussed with and reviewed information provided by the management of the Group regarding the businesses of the Group, the prospect of conducting the Continuing Connected Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have relied on the information and facts supplied, and the opinions expressed to us, by the management of the Group and have assumed that they are true, accurate and complete and will remain so up to the date of the EGM. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the CCT Agreements and the Annual Caps, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

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

2. Information on the Counterparties

AEON Credit

AEON Credit is principally engaged in the provision of consumer finance services, which include the issuance of credit cards and the provision of personal loan financing, insurance agency and brokerage business, and microfinance business.

AEON Delight

AEON Delight is principally engaged in business management and has been granted the rights to manage the business operations of its related and affiliated corporations in the PRC. Members of the AEON Delight Group is principally engaged in the comprehensive facility management services, including a wide range of facilities management, maintenance, consulting, cleaning, security and material/supplies sourcing services.

TopV

TopV is principally engaged in the development, procurement and supply of a variety of merchandise, including fashion, household and food items.

3. Reasons for and benefits of the entering into the CCT Agreements

(I) Card Acquiring Merchant Agreement

We are advised by the management of the Group that the Group has been engaging an independent service provider to provide the card acquisition services to customers of the Group for in-store Card purchases in Hong Kong since 2011. However, with a view to explore the possibility of lowering the costs of card acquiring services to the Group, the management of the Group invited four service providers (including AEON Credit, the existing independent service provider and two other independent service providers) to tender for the provision of card acquiring services in around October 2020 (the “**Tender**”). Since the commission rates quoted by AEON Credit would result in highest saving for the Group, the Company intends to migrate the said card acquiring services to be provided by AEON Credit solely, subject to transition and on a non-exclusive basis.

(II) Master Services Agreement

The Group currently operates general merchandise stores and a shopping mall in Hong Kong and Guangdong Province of the PRC and requires to procure Services from relevant service providers from time to time to support the business operations of its stores. The AEON Delight Group is one of the Group’s service providers and has been providing Services to the Group for more than ten years according to the management of the Group.

As stated in the letter from the Board, the Directors consider that the continued engagement of members of the AEON Delight Group to provide the Services, subject to members of the AEON Delight Group being selected under the Group’s procurement process, would allow the Group to import leading service knowhow from the AEON Delight Group, improve the Group’s service quality to customers, enhance customer satisfaction when shopping at the Group’s stores, reduce the Group’s efforts in service alignment and enhance the Group’s costs control and service level upgrading. As such, the Group wishes to continue procure Services from the AEON Delight Group and renew the transactions under the Previous Master Services Agreement by entering into of the Master Services Agreement with the AEON Delight Group.

(III) Master Trademark Licence Agreement

“TopValu” is a renowned private brand of the “AEON” group established in 1994 and a wide range of quality products bearing the brand are sold worldwide at stores of members of the “AEON” group. In addition, “TopValu” is currently one of the Group’s most prevalent brands at the stores and the TopValu Products have been sold at the Group’s stores since 1996.

As stated in the letter from the Board, the Directors consider that the TopValu Trademarks are essential to the operations and success of the Group and obtaining the licence to use the TopValu Trademarks by the Group on its TopV Products would enable the Group to have better control on the selections of its products as well as its manufacturers and suppliers as it will enable the Group to initiate product development and purchase orders based on its needs and targeted market in the PRC and Hong Kong. As the Group will be working directly with its manufacturers and suppliers on the purchase orders, the Group will be able to build and expand on relationships with its manufacturers and suppliers. As a result, the Group may have better control and savings on the merchandise costs of the TopV Products and be able to further its business development in Hong Kong and the PRC. In view of such, the Directors consider that it is in the best interest of the Company and its shareholders as a whole to continue obtaining non-exclusive right and licence to use the TopValu Trademarks by renewing the Previous Master Trademark Licence Agreement.

Having considered the Group is principally engaged in the operation of general merchandise stores, we concur with the Directors' view that the entering into of the CCT Agreements is in the ordinary and usual course of business of the Group.

4. Principal Terms of the CCT Agreements

(I) Card Acquiring Merchant Agreement

AEON Credit has agreed to act as the Group's card acquiring merchant to facilitate in-store Card purchases in Hong Kong for customers of the Group commencing from 16 August 2021 or a date after approval of the Card Acquiring Merchant Agreement by the Independent Shareholders, whichever is later, for a period of three years, and in return AEON Credit will charge the Group commissions (i.e. the Merchant Discount Amount) equivalent to fixed percentages of the in-store Card purchase amount for the Cards issued by entities other than AEON Credit. The commission rate chargeable by AEON Credit, ranges from 1.15% to 1.90%, depending on the Card type (i.e. Visa, Mastercard, JCB, and CUP) and business type (i.e. supermarket or retail shop), where applicable. AEON Credit will collect the Merchant Discount Amount by way of deducting from the settlement amount to be received from the card issuing banks or companies before returning the remaining amount to the Group within two business days upon completion of the relevant transaction.

We have reviewed and compared the terms of the Card Acquiring Merchant Agreement and the existing agreement entered into between the Group and the existing independent service provider for the card acquisition transactions (the "**Independent Card Acquisition Agreement**") and noted that the fee structure of both agreements are similar and the payment/settlement terms of the Independent Card Acquisition Agreement are within one to two business days following the completion of the relevant transaction which is similar to that of the Card

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Acquiring Merchant Agreement. In addition, we noted that the Card Acquiring Merchant Agreement can be terminated by either party to the agreement by giving 90 days' prior written notice to another party. However, the Independent Card Acquisition Agreement can be terminated by the Group or the independent service provider by giving not less than 30 days' prior written notice to other party. We have discussed with the management of the Group in this regard and are advised that a longer notice period prior to termination will allow the Group more time and flexibility for smooth transition to replace service provider should AEON Credit no longer be the service provider. We are further advised that the termination clause under both agreements largely protect the Group against the termination right exercisable by the service provider rather than restricting the Group from terminating the agreement with the service provider. On the above bases, we concur with the management of the Group that a longer notice period prior to termination of the Card Acquiring Merchant Agreement is acceptable.

Furthermore, we are advised by the management of the Group that the existing independent service provider provides card acquiring services to all Hong Kong stores all year round and processes more than 500 Card transactions each day. Having considered the scale of the card acquiring services, we have randomly selected and reviewed settlement records of five transaction days in 2020, which we consider to be fair and representative samples. In addition, we have reviewed the tender documents received from bidders in the Tender for the provision of card acquiring services. We noted that AEON Credit's commission rates as stated in the Card Acquiring Merchant Agreement are (a) lower than the commission rates charged by the existing independent service provider based on the sample settlement records; and (b) consistent with those stated in AEON Credit's tender document.

We are advised by the management of the Group that the Group selected the service provider for the provision of card acquiring services primarily based on the comparison of the total Card charges to be borne by the Group which is calculated based on the commission rates quoted by the qualified bidders (including AEON Credit) multiplied by the card acquisition amount processed by the existing independent service provider for 2019 and 2020. Based on the Group's calculation which we have reviewed, the commission rates quoted by AEON Credit would result in highest saving for the Group.

Given that (i) the Card Acquiring Merchant Agreement and the Independent Card Acquisition Agreement both have similar fee structure and payment/settlement terms; (ii) AEON Credit's commission payable is lower than that charged by not only the existing independent service provider but also other bidders in the Tender based on the card acquisition amount processed by the existing independent service provider for 2019 and 2020, we consider that the terms of the Card Acquiring Merchant Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(II) Master Services Agreement

Pursuant to the Master Services Agreement, subject to the fulfilment of the Condition Precedents, the term of the Master Services Agreement shall be for a period of three years commencing on 1 January 2022 and expiring on 31 December 2024. In addition, where a member of the AEON Delight Group is selected through relevant procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AEON Delight Group may from time to time (and AEON Delight shall procure such member of the AEON Delight Group to) enter into separate agreements setting out the detailed terms under which the relevant member of the AEON Delight Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on terms no less favourable to which the Company and/or the relevant member of the Group procures the Services from independent third parties. We have reviewed the Master Services Agreement and the Previous Master Services Agreement and noted that the terms of both agreements are materially the same.

We have discussed with the management of the Group in relation to the related procurement process and are advised that, if the AEON Delight Group is invited, the Group will also invite quotations or tenders from at least two other independent third party suppliers. The management of the Group will then compare the quotation offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders, and decide which bidder to engage with. According to the management of the Group, the Group expects to procure three main type of Services from the AEON Delight Group, namely (a) cleaning; (b) maintenance and security; and (c) store interior design though the Group mainly procures cleaning services for its PRC stores. The Service fee payable for each store depends on the required Service(s) and manpower (except for store interior design services which are on project basis), the size as well as the location of the store. Once the relevant agreement is entered with selected bidder, Service fee will be charged at the same rate based on required manpower on a monthly basis (except for store interior design which is charged on project basis and subject to stage payments).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Group, the AEON Delight Group participated in 27 tenders of the Group for provision of the Services in 2020, out of which it had won 13. We have randomly selected and reviewed a total of five tender assessment records in 2020, under which the AEON Delight Group was the winning bidder, two relating to cleaning services and three relating to other Services. In addition, we have reviewed the corresponding agreements entered into with the AEON Delight Group after the AEON Delight Group had won the relevant tenders and 21 related sample invoices (which consist of one month invoices for cleaning and maintenance and security services and two store interior design projects, involving a total of 15 stores) (collectively, the “**Reviewed Samples**”). Having considered that the Reviewed Samples cover provision of three types of Services by the AEON Delight Group to 15 out of 22 stores in 2020, we consider them to be fair and representative samples.

From the given tender assessment records, we noted that (i) there were two independent bidders participated in each tender; (ii) the management of the Group compared the quotations provided by the bidders against one another and in some cases they also compared it against the service fee paid by the Group in previous year; and (iii) the AEON Delight Group provided the lowest quotation(s) in each tender. In addition, we noted that the aggregate service fee for each relevant store stated in the tender assessment records is the same as that of the relevant store stated under the corresponding agreement which also matches with the payment amount stated in the relevant sample invoice(s).

Given that (i) the AEON Delight Group was/will only be selected for the provision of Services pursuant the tender results, where at least two other independent third party suppliers were/will be invited to provide their quotation for comparison; (ii) the quotation(s) provided by the AEON Delight Group for each tender were the lowest based on the given tender assessment records; and (iii) the aggregate service fee of each relevant store stated in the given tender assessment records is the same as that of the relevant store stated in the corresponding agreement entered with the AEON Delight Group which also matches with the payment amount stated in relevant sample invoice(s), we consider that the terms of the Master Services Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(III) Master Trademark Licence Agreement

Pursuant to the Master Trademark Licence Agreement, TopV agreed to grant (and/or procure other members of the TopV Group to grant) to the members of the Group a non-exclusive right and licence to use the TopValu Trademarks in Hong Kong and the PRC for the purpose of or in connection with the business of procuring and selling merchandises (including but not limited to fashion, food and household products) to retail customers in the stores or supermarkets operated by the Group (including applying the TopValu Trademarks on the products supplied by independent third party manufacturers or suppliers to the Group and the marketing, sale and promotional materials in connection therewith). In connection with the grant of the licence, TopV shall (and/or procure other members of the TopV Group to) provide certain ancillary services to the members of the Group and shall be entitled to exercise control, including (a) conduct market research, planning and development of products; (b) establish product specifications; (c) provide to members of the Group with information on product specifications, product cost and related expenses; (d) manage production and conduct quality control on products; (e) provide information on promotion; and (f) any other services in connection with (a) to (e). In addition, subject to the fulfilment of the Condition Precedents, the term of the Master Trademark Licence Agreement shall be for a period of three years commencing on 1 January 2022 and expiring on 31 December 2024.

It is agreed that the Group shall pay to the TopV Group a licence fee equivalent to 7% of the amount of purchase costs of the TopV Products (excluding any value added tax or other tax or freight expenses) supplied by manufacturers or suppliers to the Group.

We have reviewed the Previous Master Trademark Licence Agreement and Master Trademark Licence Agreement and noted that the terms of both agreements are materially the same.

We have randomly selected and reviewed three months purchase records which set out all TopV Product purchases within the month by one of the Group's subsidiaries in 2020 and the calculation of licence fee and noted that the calculations are in line with the licence fee paid by the Group to the TopV Group of the relevant month. Having considered the reviewed samples which covers three months in 2020, we consider the sample purchase records to be fair and representative samples.

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Furthermore, we have endeavoured to identify comparable transactions involving the licensing arrangement in the past three years (i.e. from 1 June 2018 to the date of the Announcement, the “**Review Period**”), where (i) the licensee obtains the right to use the trademarks in a variety of merchandise and either itself, its holding company or its counterparty listed on the Main Board of the Stock Exchange and within department stores and shopping malls category based on AASTOCKS.com (the Company is also under this category); and (ii) such transactions are publicly announced by way of announcement during the Review Period with pricing terms and remain effective. However, no comparable transaction is identified.

We then extended our scope of search to the companies under (i) fashion; (ii) packaged foods; (iii) fresh produce; and (iv) food and beverage categories on AASTOCKS.com and looked up the transactions based on the above criteria (the “**Comparable Licence Transactions**”). A summary of the Comparable Licence Transactions (which, so far as we are aware of, are exhaustive, and are thus considered to be fair and representative samples) are set out in the table below:

Date	Company (stock code)	Transaction description	Pricing terms for the use of trademark(s)
11 Jan 2021	Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (520)	The grant of a non-transferable right to use trademarks by a connected person of the company to the group to produce and sell tea beverages and tea snacks at the group’s restaurants.	5% of the revenue from the sale of tea beverages and tea snacks at the group’s restaurants.
30 Dec 2020	C.P. Pokphand Co. Ltd. (43)	The sub-licence of a non-exclusive right to use a trademark in the PRC by the company’s connected person to members of the group in connection with the production, distribution and sale of certain food-related products and the provision of certain related services.	1.5% of the net sale value of products sold under the trademark.
14 Dec 2020	Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (520)	The grant of a non-transferable right and licence to use the trademarks by members of the group to another member of the group in connection with the production and sale of condiment products and instant foods.	1% of the total revenue of the licensee generated from the sale of condiment products and instant foods.

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Date	Company (stock code)	Transaction description	Pricing terms for the use of trademark(s)
21 Sep 2020	Trinity Limited (891)	The grant of the exclusive rights by connected persons of the company to a member of the group to use the trademarks to design, manufacture, sell, distribute, market and promote the licensed products in the licensed territories.	5% of the net retail sales and 10% of the net wholesale sales of the licensed products bearing the licensed trademarks achieved by the licensee (and all sub-licensees, if applicable).
30 Dec 2019	C.P. Pokphand Co. Ltd. (43)	The grant of a non-exclusive right of use of the trademarks by a connected person of the company to members of the group in connection with its business operations in Vietnam.	1.5% of the net revenue of the licensee group from sale of the products manufactured by the licensee group or by third party engaged by it and provision of services with the trademarks attached or promoted by the use of trademarks by the licensee group, which can be deducted with the total advertising expenses of the licensee group.
7 Nov 2019	Nissin Foods Company Limited (1475)	The grant of non-exclusive licences by a connected person of the company to the group to use the trademarks and technology in the its businesses in Hong Kong, Macau, Taiwan and the PRC, and export or distribute the products bearing and/or using the trademarks and technology.	0.5 or 2.5% of the net sales of the products using the trademarks and technology (depending on the trademark and place of manufacture, if applicable).
31 May 2019	Sterling Group Holdings Limited (1825)	The grant of a non-transferable licence by the group to a third party to utilise the licensed intellectual property of the group in the manufacturing, marketing, sale, and distribution of the relevant products solely within the licensed territory.	(i) 0.4% of all gross sales for the first US\$40 million of the products bearing or utilising any of the licensed intellectual property in the 12 month period after the date of the licence agreement; (ii) 1% of gross sales on all gross sales after exceeding US\$40 million through the remainder of the term of the licence agreement; and (iii) minimum amount of the royalty payment would be US\$120,000 per annum.

Note: The licence arrangements conducted by Dickson Concepts (International) Limited (stock code: 113) in 2020 and 2021 have been excluded where the licence fees are based on a certain percentage of royalties collecting from third parties, the pricing of which is considered to be different from that under the Master Trademark Licence Agreement.

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As stated above, a total of seven Comparable Licence Transactions are identified with licence fee charged ranging between about 0.4% and 10% of the sales amount of the products which bear the trademarks.

The pricing basis under the Master Trademark Licence Agreement is based on purchase cost while those under the Comparable Licence Transactions are based on sales amount of the products. In order to facilitate a like-for-like comparison, the management of the Group has worked out the estimated selling prices of the TopV Products based on the purchase costs, the 7% licence fee over purchase cost, all other costs (such as delivery and tax) and the lowest and highest gross profit margin of the TopV Products in 2020. On this basis, licence fee ranges from 2.5% to 3.8% of the sales amount of the TopV Products.

Given the licence fee charged between 2.5% and 3.8% of the sales amount under the Master Trademark Licence Agreement falls within the range of those charged in the Comparable Licence Transactions, we are of the view that the pricing terms of the Master Trademark Licence Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

5. The Annual Caps

(I) Card Acquiring Merchant Agreement

We have reviewed and discussed with the management of the Group their estimated commission payable to AEON Credit for the period from 1 July 2021) to 30 June 2024 for determining the annual caps for the transactions contemplated under the Card Acquiring Merchant Agreement (the “**Card Acquisition Annual Caps**”). A summary of the Group’s projections prepared by the management of the Group is set out below:

<i>(HK\$'million)</i>	FY2019	FY2020	FY2021	FY2022	FY2023	1H2024
	<u>Actual amount</u>			<u>Estimated amount</u>		
Card acquisition transaction amount	1,297.3	1,368.6	1,401.1	1,464.2	1,556.8	818.9
Card acquisition charges						
— payable to independent service provider	19.7	20.5	10.4 ²	NA	NA	NA
— payable to AEON Credit ¹	NA	NA	9.6	19.9	21.1	11.1
Buffer of 10%	NA	NA	1.0	1.9	2.1	1.1
Card Acquisition Annual Caps¹	NA	NA	10.6	21.8	23.2	12.2

Notes:

- The amounts under the Card Acquisition Transactions are estimated for the period from 1 July 2021 to 30 June 2024. However, the Card Acquisition Annual Caps are to cover the period from 16 August 2021 to 15 August 2024, which has been agreed between the Company and AEON Credit.
- The projection of the card acquisition charges payable is based on the estimated card acquisition transaction amount for the first half of 2021 multiplied by the weighted average commission rate charged by the independent service provider for 2020.

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We have reviewed and discussed the above projection with the management of the Group and are advised that (i) the estimated card acquisition amount is derived from the estimated direct and concessionaire sales based on the Group's latest five-year budget approved by the Board in the fourth quarter of 2020 taking into account the Group's future business development plan (including the opening of new stores) multiplied by the ratio of card acquisition transaction amount to direct and concessionaire sales; and (ii) the Group's growth in card acquisition transaction amounts in the next three years is based on the estimated direct and concessionaire sales which, in turn, mainly depends on the Group's store expansion plan, especially the opening of new supermarkets. The management of the Group have applied the same splits of the transactions with the independent service provider in 2020 to project the card acquisition transaction amount for each of the periods.

The weighted average commission rate chargeable by AEON Credit is calculated based on the card acquisition transaction amount multiplied by the respective commission rate chargeable by AEON Credit depending on the card type and business type (if applicable) pursuant to their tender previously provided to the Group. Based on the splits of the card acquisition amount by business and card types with the independent service provider in 2020, the weighted average commission rate chargeable by AEON Credit is estimated to be 1.36% as opposed to 1.52% in 2019 and 1.50% in 2020 by the independent service provider. The management of the Group have applied 1.36% for each of the periods to arrive at the card acquisition charges payable to AEON Credit.

Furthermore, for the purpose of determining the Card Acquisition Annual Caps, a buffer of 10% is applied to the estimated Card charges payable to AEON Credit to accommodate any unexpected increase in direct and concessionaire sales or card acquisition transaction amount resulting from, among other things, sales or Card promotions, which in turn might lead to higher than expected Card charges payable to AEON Credit.

Given the Card Acquisition Annual Caps are determined based on (i) the estimated direct and concessionaire sales as set out in the Group's 5-year budget which have taken into account, amongst others, its store expansion plan; (ii) the estimated card acquisition transaction amounts being projected based on the same splits of the transactions with the independent service provider in 2020; (iii) the projected card acquisition charges payable to AEON Credit are computed by using the weighted average commission rate offered by AEON Credit which, in turn, is determined based on the splits of the card acquisition amount by business and card types with the independent service provider in 2020; and (iv) a buffer of 10%, we are of the view that the basis in arriving at the Card Acquisition Annual Caps are reasonable so far as the Company and the Independent Shareholders are concerned.

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(II) Master Services Agreement

We have been provided with and reviewed the Group’s projections for estimated service fee payable to the AEON Delight Group for the purpose of determining the annual caps for the transactions contemplated under the Master Services Agreement (the “**Master Services Annual Caps**”) for each of the three years ending 31 December 2022, 2023 and 2024, a summary of which is set out below:

	FY2019 Actual Amount	FY2020	FY2021	FY2022	FY2023	FY2024
	Estimated Amount					
Service fee payable to the AEON Delight Group (RMB'million)	29.2	27.4	30.1	36.8	45.0	49.7
No. of stores involved ¹	26.0	21.5	22.5	24.5	28.0	30.5
Amount of service fee payable per store (RMB'million)	1.12	1.27	1.34	1.50	1.61	1.63
Buffer of 10% (RMB'million)	NA	NA	NA	3.7	4.5	5.0
Master Services Annual Caps (RMB'million)	45.0²	45.0²	45.0²	40.5	49.5	54.7
Utilisation rate	64.9%	60.9%	NA	NA	NA	NA

Notes:

1. It refers to the average of the number of the Group’s stores at the beginning and the end of the respective financial year.
2. They are the existing annual caps for the provision of Services by the AEON Delight Group as extracted from the Company’s announcement dated 11 December 2018.

We have discussed with the management of the Group in relation to the Services transactions and are advised that (i) the appointment of the AEON Delight Group as supplier in respect of provision of Services including cleaning, maintenance and security and store interior design is subject to tender process; (ii) most of the existing PRC stores only require cleaning services from the AEON Delight Group; and (iii) the service fee payable for each store depends on the required Service(s) and manpower (except for store interior design services), the size as well as the location of the store.

We have also discussed with the management of the Group the actual service fee paid to the AEON Delight Group and are advised that (i) the difference between the actual Service fee paid to the AEON Delight Group and the existing caps in 2019–2020 is mainly due to either the AEON Delight Group failing to win the tenders or reach an agreement with the Group and direct settlement of utilities by the Group instead of through the AEON Delight Group; (ii) the decrease of Service fee paid to the AEON Delight Group from RMB29.2 million in 2019 to RMB27.4 million in 2020 was principally due to the decrease in number of PRC stores served by the AEON Group Delight. As regards the estimated service fee payable in 2021–2024, it is noted that (i) the Group plans to invite the AEON

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Delight Group to tender(s) for providing Services to three PRC stores in 2022, four PRC stores in 2023 and two PRC stores in 2024; and (ii) the estimated service fee payable to the AEON Delight Group has been projected on the basis that the existing contracts with the AEON Delight Group will continue and, upon expiries, will renew and the AEON Delight Group would win the relevant tender(s) for the provision of cleaning and maintenance and security services to 11 out of 12 new PRC stores and store interior design services to 6 out of 12 new PRC stores and ultimately reach an agreement with the Group. As shown in the above table, the amount of service fee payable per store for the period from 2021 to 2024 is RMB1.34 million, RMB1.50 million, RMB1.61 million and RMB1.63 million, respectively, representing year-on-year increases of around 5.5%, 11.9%, 7.3% and 1.2%. Such increases are principally attributable to (i) the opening of new PRC stores which almost all require cleaning and maintenance and security services from the AEON Delight Group as opposed to the Service fees paid in 2019–2020 mainly covered cleaning services; and (ii) the service fee payable has built in an increment of 2% for each of 2022, 2023 and 2024, which is referenced to the compound annual growth rate of the consumer price index (“CPI”) in the PRC from 2014 to 2019 calculated based on data quoted from the National Bureau of Statistics of China.

A buffer of 10% is applied to the estimated fee payable to the AEON Delight Group to accommodate any additional service fee payable resulting from, among other things, unexpected additional manpower required as well as increase in labour cost and additional stores that require the AEON Delight Group’s services.

Given the Master Services Annual Caps are determined based on (i) the estimated service fee payable to the AEON Delight Group which has been projected on the basis the existing contracts with the AEON Delight Group will continue and, upon expiries, will renew and the AEON Delight Group would win the relevant tender(s) for the provision of cleaning and maintenance and security services to 11 out of 12 new PRC stores and store interior design services to 6 out of 12 new PRC stores and ultimately reach an agreement with the Group; (ii) the annual increase of service fee payables of 2% is referenced to the compound annual growth rate of the CPI in the PRC from 2014 to 2019; and (iii) a buffer of 10%, we are of the view that the bases in arriving at the Master Services Annual Caps are reasonable so far as the Company and the Independent Shareholders are concerned.

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(III) Master Trademark Licence Agreement

We have reviewed and discussed with the management of the Group their estimated licence fee payable to the TopV Group for each of the three years ending 31 December 2022, 2023 and 2024 for determining the annual caps for the transactions contemplated under the Master Trademark Licence Agreement (the “**Master Trademark Licence Annual Caps**”). A summary of the Group’s projections prepared by the management of the Group is set out below:

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
	<u>Actual amount</u>		<u>Estimated amount</u>			
	<i>Hong Kong stores¹</i>					
(A)	Purchase amount (HK\$’ million) ²					
	25.6	46.8	111.7	126.5	145.6	171.3
	Number of stores ³					
	11.0	11.0	11.5	12.5	14.0	16.0
	Purchase amount per store (HK\$’ million)					
	2.3	4.3	9.7	10.1	10.4	10.7
	<i>PRC stores¹</i>					
(B)	Purchase amounts (HK\$’ million) ²					
	106.0	129.1	222.1	297.3	396.8	525.8
	Number of stores ³					
	30.5	31.5	36.5	44.0	52.5	61.0
	Purchase amounts per store (HK\$’ million)					
	3.5	4.1	6.1	6.8	7.6	8.6
(A)+(B)	Total purchase amounts (HK\$’ million)					
	131.6	175.9	333.8	423.8	542.4	697.1
	Licence fee (HK\$’ million)					
	9.2	12.3	23.4	29.7	38.0	48.8
	Buffer of 10% (HK\$’ million)					
	NA	NA	NA	3.0	3.8	4.9
	Master Trademark Licence Annual Caps (HK\$’ million)					
	20.0⁴	28.0⁴	38.0⁴	32.7	41.8	53.7
	Utilisation rate					
	46.0%	43.9%	NA	NA	NA	NA

Notes:

- (1) It refers to the Group’s stores in Hong Kong/the PRC for selling the TopV Products.
- (2) The purchase amount of the TopV Products is exclusive of any value added tax or other tax or freight expenses.
- (3) It refers to the average of the number of the Group’s “AEON Style” stores, general merchandise stores (“GMS”), supermarkets and shopping centre at the beginning and the end of the respective financial year.
- (4) They are the existing annual caps in respect of the granting of the licence to use the TopValu Trademarks and the related ancillary services to be provided by the TopV Group as extracted from the Company’s announcement dated 31 December 2018.

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We are advised by the management of the Group that there are mainly four types of stores selling the TopV Products, namely “AEON Style”, GMS, supermarkets and shopping centre and the licence fee payable to TopV is based on the total purchase costs of the TopV Products by the relevant stores multiplied by the agreed licence fee of 7%. As stated in the announcement of the Company dated 31 December 2018, the Group purchased products bearing TopValu Trademarks from connected persons in 2018 and before. As advised by the Company, the relevant purchase amounts of TopV Products by Hong Kong stores were HK\$101.4 million in 2017 (or purchase amount per Hong Kong store of HK\$8.5 million) and HK\$115.6 million in 2018 (or purchase amount per Hong Kong store of HK\$10.1 million). However, after the Group commenced the current procurement arrangement in January 2019 where the Group obtains the licence to use the TopValu Trademarks and purchase the products directly from independent manufacturers or suppliers, it took time for the Group to build up relationships with different manufacturers and suppliers in Japan for the direct procurement of goods. The purchase amount of Hong Kong stores dropped substantially to HK\$25.6 million in 2019 (or purchase amount per Hong Kong store of HK\$2.3 million) and then increased to HK\$46.8 million in 2020 (or purchase amount per Hong Kong store of HK\$4.3 million). The Group has been catching up the purchase of TopV Products and expects the purchase amount and purchase amount per Hong Kong store will reach the 2018 level by 2022. According to the management of the Group, as the profit margins of TopV Products are generally higher than those of other similar products, the Group aims to boost the sales of TopV Products and thus increase the purchase target in terms of percentage of direct sales in Hong Kong from around 2.7% in 2021 to 3.4% by the end of 2024. On these bases, the gradual increase in the projected purchase amount per store for 2021–2024 set out in the above table is considered to be reasonable.

In respect of the PRC business operations, we are advised that the Group encountered less difficulties in the procurement of goods from manufacturers and suppliers in the PRC after the commencement of the new procurement arrangement. The Group however was impacted by COVID-19 which disrupted its original store expansion plan in the PRC for 2020 and 2021 and in turn affected the procurement for TopV Products for the same period. Due to longer than expected transition period to build up relationships with manufacturers and suppliers in Japan and disruption to the PRC business operation caused by COVID-19, the total purchase amounts were/are expected to be lower than those for determining the existing caps for 2019–2021. According to the management of the Group, the Group plans to accelerate the opening of new stores in the PRC in the next few years with the average number of stores increased from 36.5 in 2021 to 61.0 in 2024 with an aim of meeting the purchase targets which are to increase from 3.7% of the direct sales in the PRC in 2021 to 6.5% by 2024. These initiatives will in turn increase the procurement of products substantially as compared to regular replenishment of goods by existing stores. On these bases, the gradual increase in the projected purchase amount per store for 2021–2024 set out in the above table is considered to be reasonable.

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After an estimated licence fee payable have been arrived based on the projected purchase amount multiplied by the agreed licence fee of 7%, a buffer of 10% is applied to the estimated licence fee payable to TopV for each of the three years ending 31 December 2022, 2023 and 2024 to allow flexibility to the Group's business operations as well as to accommodate unexpected increase in purchase amounts resulting from, among other things, increase in market demand for TopV Products and/or exchange rate fluctuations.

Given the Master Trademark Licence Annual Caps are determined based on (i) the projected purchases of the goods for the three years ending 31 December 2022, 2023 and 2024 having taken into account the Group's historical purchases, store expansion plan and purchase targets; and (ii) a buffer of 10%, we are of the view that the basis in arriving at the Master Trademark Licence Annual Caps is reasonable so far as the Company and the Independent Shareholders are concerned.

6. Internal control

As stated in the letter from the Board, as part of the Group's internal control systems, the Company's Connected Party Transaction Panel, comprising the administration director, finance general manager, legal senior manager and the finance/administration general managers of two subsidiaries of the Company, will assist the Directors to review and monitor all connected transactions of the Group including the transactions under each of the CCT Agreements. The Connected Party Transaction Panel generally holds meetings biweekly to review and monitor all continuing connected transactions of the Group. Whilst the finance departments of the relevant members of the Group will conduct the initial level of control over the transaction and the transaction amounts under each of the CCT Agreements to ensure they are conducted within the frameworks and the annual caps of the relevant CCT Agreements. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under each CCT Agreement to ensure the transactions are conducted within the framework of the relevant CCT Agreement and monitor the utilization of the annual caps for the relevant CCT Agreement to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

In addition, the independent non-executive Directors will, pursuant to Rule 14A.55 of the Listing Rules, review, among other things, whether the transactions under the CCT Agreements are conducted on normal commercial terms and the auditors of the Company will, for the purpose of Rule 14A.56 of the Listing Rules, review, among other things, whether the transactions under each of the CCT Agreements are conducted in accordance with the terms therein. Furthermore, we noted from the Annual Report that the transactions under the Previous Agreements were carried out within their respective applicable annual caps for 2020.

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On the above basis, we concur with the view of the management of the Group that adequate measures have been put in place to monitor the transactions under the CCT Agreements in order to protect the interests of the Company and the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the transactions contemplated under the CCT Agreements are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the CCT Agreements are on normal commercial terms and fair and reasonable and the bases in arriving at the Annual Caps are reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM in relation to approval of the CCT Agreements and the Annual Caps.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is licensed person and responsible officer of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

APPENDIX — GENERAL INFORMATION

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

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

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
NAKAGAWA Isei (<i>Note 1</i>)	2,400	0.00028
HISANAGA Shinya (<i>Note 2</i>)	2,030	0.00023
HABU Yuki (<i>Note 3</i>)	8,460	0.00097

Notes:

- (1) As confirmed by Mr. NAKAGAWA Isei, his shareholding in AEON is 2,400 shares.
- (2) As confirmed by Mr. HISANAGA Shinya, his shareholding in AEON is 2,030 shares.
- (3) As confirmed by Ms. HABU Yuki, her shareholding in AEON is 8,460 shares.

(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) who 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 shareholders	Long positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON	157,536,000 <i>(Note 1)</i>	60.59
Standard Life Aberdeen plc and its affiliated investment management (together the " Aberdeen Group ") on behalf of accounts managed by the Aberdeen Group	16,062,000 <i>(Note 2)</i>	6.18

APPENDIX — GENERAL INFORMATION

Notes:

- (1) These shares are held as to 155,760,000 shares by AEON and 1,776,000 shares by AEON Credit Service (Asia) Company Limited (“ACS”).

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

- (2) As confirmed by Aberdeen Group, these shares are held by the Aberdeen Group on behalf of accounts managed by the Aberdeen Group in the capacity of an investment manager and the Aberdeen Group has the power to vote on all the shares held.

3. DIRECTORS’ EMPLOYMENT 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
HABU Yuki	AEON	Executive Vice President Digital Business
FUKUDA Makoto	AEON	General Manager of Finance Department

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the 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. COMPETING INTERESTS

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

6. 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 had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or

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which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

8. MATERIAL ADVERSE CHANGE

Save as disclosed in the profit warning announcement of the Company dated 18 June 2021, 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 2020, being the date to which the latest published audited financial statements of the Group were made up.

9. MATERIAL CONTRACTS

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.

10. 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.

11. EXPERTS AND CONSENTS

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

Name	Qualification
Somerley Capital Limited	a corporation licensed to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO

As at the Latest Practicable Date, the above expert:

- (a) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name, in the form and context in which they appear;

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- (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 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

12. GENERAL

- (1) The registered office of the Company is at G-4 Floor, Kornhill Plaza (South), 2 Kornhill Road, Hong Kong.
- (2) The 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 at Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong.
- (4) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (5) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (except Saturdays, Sundays and public holidays) at the head office and principal place of business of the Company at Units 07–11, 26/F, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong, for a period of 14 days from the date of this circular (both days inclusive):

- (1) the articles of association of the Company;
- (2) the CCT Agreements;
- (3) the Master Agreement;
- (4) the Previous Agreements;
- (5) the annual report of the Company for the year ended 31 December 2018;
- (6) the annual report of the Company for the year ended 31 December 2019;
- (7) the annual report of the Company for the year ended 31 December 2020;

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- (8) the letter from the Board, the text of which is set out on pages 6 to 22 of this circular;
- (9) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this circular;
- (10) the letter from the Independent Financial Adviser, the text of which is set out on pages 25 to 43 of this circular;
- (11) the written consent referred to in the section headed “11. Expert and consent” in this appendix; and
- (12) this circular.



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 shareholders of AEON Stores (Hong Kong) Limited (the “**Company**”) will be held at President’s Suite, World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 30 July 2021 at 9:30 a.m. (the “**EGM**”), to consider and, if thought fit, pass, with or without amendments, the following resolutions below as ordinary resolutions.

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 13 July 2021.

ORDINARY RESOLUTIONS

Ordinary Resolution no. 1

1. “THAT:

- (a) the transactions contemplated under the Card Acquiring Merchant Agreement, copy of which have been produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification, and the relevant annual cap for the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) all acts done and things executed and all such documents or deeds entered into in connection with the implementation of the Card Acquiring Merchant Agreement and the transactions contemplated thereunder and the annual cap for the transactions contemplated thereunder be and are hereby ratified, confirmed and approved, and any one Director be and is hereby authorised to do all such acts and things and execute all such documents or deeds and to take all steps as the Director may in his/her discretion consider necessary, desirable or expedient in connection with the implementation of the Card Acquiring Merchant Agreement or the transactions contemplated thereunder and/or the annual cap for the transactions contemplated thereunder and to make and agree to such variations, amendments or waivers of matters relating thereto, as are, in the opinion of the Director, necessary or desirable.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

Ordinary Resolution no. 2

2. “THAT:

- (a) the transactions contemplated under the Master Services Agreement, copy of which have been produced to the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification, and the relevant annual cap for the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) all acts done and things executed and all such documents or deeds entered into in connection with the implementation of the Master Services Agreement and the transactions contemplated thereunder and the annual cap for the transactions contemplated thereunder be and are hereby ratified, confirmed and approved, and any one Director be and is hereby authorised to do all such acts and things and execute all such documents or deeds and to take all steps as the Director may in his/her discretion consider necessary, desirable or expedient in connection with the implementation of the Master Services Agreement or the transactions contemplated thereunder and/or the annual cap for the transactions contemplated thereunder and to make and agree to such variations, amendments or waivers of matters relating thereto, as are, in the opinion of the Director, necessary or desirable.”

Ordinary Resolution no. 3

3. “THAT:

- (a) the transactions contemplated under the Master Trademark Licence Agreement, copy of which have been produced to the meeting marked “C” and signed by the Chairman of the meeting for the purpose of identification, and the relevant annual cap for the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) all acts done and things executed and all such documents or deeds entered into in connection with the implementation of the Master Trademark Licence Agreement and the transactions contemplated thereunder and the annual cap for the transactions contemplated thereunder be and are hereby ratified, confirmed and approved, and any one Director be and is hereby authorised to do all such acts and things and execute all such documents or deeds and to take all steps as the Director may in his/her discretion consider necessary, desirable or expedient in connection with the implementation of the Master Trademark Licence Agreement or the transactions contemplated thereunder and/or the annual cap for the

NOTICE OF EXTRAORDINARY GENERAL MEETING

transactions contemplated thereunder and to make and agree to such variations, amendments or waivers of matters relating thereto, as are, in the opinion of the Director, necessary or desirable.”

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

Hong Kong, 13 July 2021

Registered office:

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

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint more than one proxy to attend and vote in his stead.
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 Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, 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 27 July 2021 to 30 July 2021, 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 Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Monday, 26 July 2021.
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 resolutions 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 7:30 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 30 July 2021 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Special note

To facilitate the ongoing prevention and control of the COVID-19 pandemic and to safeguard the health and safety of shareholders and persons helping with the meeting, the Company would like to inform shareholders that there will be no distribution of corporate gift or serving of refreshment in the meeting in order to reduce person-to-person contact.

The Company also recommends shareholders to appoint the chairman of the meeting as their proxy to vote on relevant resolutions, instead of attending the meeting in person.

Shareholders attending the meeting in person are required to wear surgical face mask and to undertake a temperature check before they enter the meeting venue. Any person who does not comply with the precautionary measures to be taken at the meeting may be denied entry into the meeting venue.
