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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
IN RELATION TO
ROYALTY AGREEMENT
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 5 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 14 to 15 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 16 to 26 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 26 October 2021 at 3 p.m. is set out on pages N-1 to N-3 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.

8 October 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
“Affiliates”	with respect to a party, means all companies, firms, corporations or other entities which are either directly or indirectly controlling, controlled by or under common control with that party, provided that to the affiliates of the Company and its Affiliates shall not include AEON and companies owned or controlled by AEON other than the Company and companies directly or indirectly controlled by the Company, and, the Affiliates of AEON shall not include the Company and companies owned or directly or indirectly controlled by the Company
“Board”	board of Directors
“Business”	the (i) ownership or (ii) ownership and operation of retail business in the style of Multiple Category Stores and/or Special Supermarket Stores
“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)
“Condition Precedents”	approval of the Royalty Agreement by the Company’s Independent Shareholders and compliance with all applicable requirements under the Listing Rules by the parties to the relevant Royalty Agreement
“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
“Direct Sales Area”	(i) the floorspace where consumer merchandise is displayed; (ii) the floorspace occupied or utilised by facilities ancillary to and relating to the above and to which customers have access including corridors, cashier counters, customer service counters, sitting areas, washrooms and baby care rooms; and (iii) the floorspace licensed by the Company to third parties trading under their own names and/or their own account
“Director(s)”	the directors of the Company

DEFINITIONS

“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 26 October 2021 at 3 p.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 Royalty Agreement 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
“Hong Kong Trade Marks”	the trademarks that are owned and registered by AEON in Hong Kong and licensed to the Company from time to time
“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 licenced 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 Royalty Agreement
“Independent Shareholders”	Shareholders other than those who have a material interest in the relevant Royalty Agreement
“Know-How”	all information and know-how (including that comprised in formulae, techniques, designs, specifications, drawings, manuals, instructions and catalogues) used, employed or developed by AEON from time to time for the management and operation of retail stores, wholesale business and related supporting facilities (as the same may from time to time be modified, improved, updated or amended)
“Latest Practicable Date”	4 October 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Macau”	the Macau Special Administrative Region, PRC
“Macau Trade Marks”	the trademarks that are owned and registered by AEON in Macau and may be licensed to the Company from time to time
“Multiple Category Stores”	<p>a retail store that:</p> <ul style="list-style-type: none">(i) has within itself at least two of the following three categories, with a wide selection of consumer merchandise within each category:<ul style="list-style-type: none">(a) clothing, shoes, and accessories;(b) household goods and day to day items excluding subparagraphs (a) and (c) of this definition but including toiletries, cosmetics, electrical and electronic appliances and goods, tools and hardware, and houseware; and(c) food items;(ii) occupies Direct Sales Area of more than 5,000 square meters
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“PRC Trade Marks”	the trademarks that are owned and registered by AEON in the PRC and licensed to the Company from time to time
“Previous Royalty Agreement”	the technical assistance agreement entered into by the Company and AEON on 24 December 2018
“RMB”	renminbi, the lawful currency of the PRC
“Royalty Agreement”	the technical assistance agreement conditionally entered into between the Company and AEON on 30 September 2021
“Shareholder(s)”	registered holders of the shares in the Company from time to time
“Special Supermarket Stores”	a store that sells food items as the store’s major merchandise and occupies Direct Sales Area of more than 500 square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Territory”	Hong Kong and Macau

DEFINITIONS

“Total of Revenue”	<p>the aggregate of:</p> <ul style="list-style-type: none">(i) the total amount of the direct sales of the Company and its Affiliates;(ii) the total amount of the sales of the respective concessionaires of the Company and its Affiliates; and(iii) the total amount of licensee fees and rentals received by the Company and its Affiliates from licensees and sub-tenants of the Company and its Affiliates, <p>all attributable to the exclusive and non-exclusive rights granted by AEON to the Company to use the Trade Marks under the Royalty Agreement.</p> <p>For the avoidance of doubt, discounts, refunds/return of goods and sales or purchases taxes or levies shall not form part of any of the items (i) to (iii) above for the purpose of this definition</p>
“Trade Marks”	<p>the Hong Kong Trade Marks, Macau Trade Marks and PRC Trade Marks</p>
“%”	<p>per cent.</p>



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

8 October 2021

(1) CONTINUING CONNECTED TRANSACTIONS

IN RELATION TO

ROYALTY AGREEMENT

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 30 September 2021 in relation to, among other things, the Royalty Agreement that the Company has conditionally entered into with AEON to renew the Previous Royalty Agreement.

The purpose of this circular is to provide you with (i) further information on the details of the Royalty Agreement and the transactions contemplated thereunder; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders;

LETTER FROM THE BOARD

(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 ROYALTY AGREEMENT

Reference is made to the announcement of the Company dated 24 December 2018 in relation to the Previous Royalty Agreement. On 30 September 2021, the Company and AEON have conditionally entered into the Royalty Agreement to renew the Previous Royalty Agreement which will expire on 31 December 2021.

Principal terms

The principal terms of the Royalty Agreement are as follows:

- Date: 30 September 2021
- Parties: (a) the Company; and
(b) AEON, as adviser
- Term: Subject to the fulfilment of the Condition Precedents, the term of the Royalty 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 Royalty Agreement. If the Condition Precedents have not been fulfilled as certified by the respective party, the Royalty Agreement shall immediately terminate and the parties shall have no claims thereunder save as to any antecedent breach.
- Trademarks: Pursuant to the Royalty Agreement, the Company and its Affiliates (through the Company) shall be granted:
- (a) an exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business within the Territory;
 - (b) a non-exclusive right to use the PRC Trade Marks in relation to the Business within the PRC; and
 - (c) a non-exclusive right to use the Trade Marks in relation to the following businesses in the Territory and the PRC:
 - (i) the provision of retail services;
 - (ii) the operation of shopping centres; and

LETTER FROM THE BOARD

(iii) catering services, food-court with seating and restaurants.

Technical assistance: AEON shall disclose full particulars of the Know-How to the Company and grant the Company the non-exclusive right to use the Know-How in relation to the Business in the Territory and the PRC.

Fees and payment: In each financial year during the term of the Royalty Agreement, the Company shall pay to AEON a fee equal to (a) an amount representing 0.2% of the audited consolidated Total of Revenue of the Company and its Affiliates for such financial year; and (b) an amount representing 0.05% of the audited Total of Revenue of the Company and its Affiliates in respect of the Business in the Territory for such financial year.

The fee shall be paid within 30 days after the Company's annual general meeting (or its adjourned meeting(s)) for approving the Company's consolidated financial results of each financial year.

Non-competition: AEON undertakes that, except with the prior written consent of the Company, neither AEON nor any of its Affiliates will, either solely or jointly with any person, be engaged in or participate in the ownership or operation of retail business in the style of Multiple Category Stores and/or Special Supermarket Stores within the Territory.

Termination: The Royalty Agreement may be terminated with immediate effect by either party if the other party commits any continuing or material breach and (in case the breach is capable of remedy) fails to remedy the same within 60 days after receipt from the non-defaulting party's written request to remedy, or if the other party is in liquidation, receivership or ceases to carry on business, etc. On termination, the Company shall remove all signs and other things on which any of the Trade Marks are used and shall thereafter cease use of:

(a) any of the Trade Marks including any trading name which consist of or includes any of the Trade Marks; and

(b) the Know-How,

LETTER FROM THE BOARD

and shall procure its Affiliates to do the same. Any continued use of the Trade Marks and/or the Know-How by the Company and its Affiliates after termination or expiry of the Royalty Agreement shall be subject to separate negotiations and written agreement between the parties.

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

Financial Year/Period	Annual caps <i>HK\$ million</i>
1 January to 31 December 2022	32.1
1 January to 31 December 2023	34.7
1 January to 31 December 2024	37.2

In arriving at the above annual caps, the Directors have taken into account (i) historical transaction amounts under the Previous Royalty Agreement for the two years ended 31 December 2020 and for the six months ended 30 June 2021 as set out below; (ii) the historical growth in retail sales of the Group's department stores and the supermarket chain stores; (iii) the recent market conditions and sales performance, (iv) the expected business growth of the Group in Hong Kong and the PRC and the addition of buffer to allow flexibility for the further increase in sales of the Group depending on the Group's business expansion plans and operational needs, and (v) the possibility of appreciation of the RMB.

LETTER FROM THE BOARD

Historical transaction amounts under the Previous Royalty Agreement:

Period	Annual Cap under		Utilization Rate of Annual Cap
	Previous Royalty Agreement	Actual Transaction Amount	
	<i>HK\$ million</i>	<i>HK\$ million</i>	
1 January to 31 December 2019	40	26.5	66.25%
1 January to 31 December 2020	40	27.5	68.75%
1 January to 30 June 2021	40	13.4	33.50%

Based on available information, the Directors do not expect the actual transaction amount to exceed the existing annual cap for the year ending 31 December 2021.

The Directors consider that the historical transaction amounts for the Previous Royalty Agreement is only one of the factors in arriving at the proposed annual caps for the Royalty Agreement. The other factors such as the Group's business expansion plans take a heavier weight in the process of determining the proposed annual caps.

After the outbreak of COVID-19, rental rates have declined significantly in Hong Kong and more suitable sites are available for the Group to consider for the opening of new stores. As such, the Company intends to increase the average number of stores in Hong Kong and the PRC from 121.0 in 2021 to 214.0 in 2024 with an average of 31.5, 33.5 and 28.0 new stores to be opened in the following years respectively:

Year	No. of small stores	No. of Supermarkets/ GMS	Sub-total:
2022	23.0	8.5	31.5
2023	23.5	10.0	33.5
2024	17.5	10.5	<u>28.0</u>
		Total:	<u><u>93.0</u></u>

In addition new supermarkets and general merchandise stores (GMS) will be the main growth drivers for Total of Revenue. Therefore, as a combined effect, the Directors expect the year-on-year increase in the Total of Revenue to be about 6.7%, 8.3% and 7.4%, respectively.

Taking into account the above, the Directors consider that the annual caps for the Royalty Agreement are fair and reasonable.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE ROYALTY AGREEMENT

Pursuant to the Previous Royalty Agreement, the Company and its Affiliates (through the Company) has been granted various rights to use the Trade Marks and the Know-How. The Previous Royalty Agreement will expire on 31 December 2021. The Directors consider that the Trade Marks, which are well known in Hong Kong, Macau and the Guangdong Province of the PRC, are essential to the operations and success of the Group. In addition, the Know-How which comprises information and knowhow used, employed or developed by AEON for the management and operation of retail stores, wholesale business and related supporting facilities can also benefit the operations of the Group. The Directors therefore consider that the use of the Trade Marks by the Group would continue to benefit the business development and expansion of the Group in Hong Kong, Macau and the PRC. The Directors are of the view that the entering into of the Royalty Agreement would secure the continuing usage of the Trade Marks and the Know-How on terms reasonable to the Company and the renewal of the Previous Royalty Agreement is in the interest of the Company and its Shareholder as whole.

In consideration of the grant of the various rights above, the Group has to pay AEON the royalty fee but in arrears within 30 days after the Company's annual general meeting. The Group is also required to comply with AEON's rules, guidelines and the Know-how on the use of the Trade Marks and its business operations.

In respect of the royalty fee payable, the Company is not aware of directly comparable transaction on trademark licensing relating to general merchandise stores and supermarket stores in the market over the past 3 years. The royalty fee are determined after arm's length negotiation between the parties and such rates are the same as those under the Previous Royalty Agreement. In addition, AEON only grants the right to use its trademarks to its subsidiaries for the operation of general merchandise stores and supermarket stores in the PRC charging at the same applicable rates which are regarded as exact and directly comparable transactions to the Royalty Agreement. It is thus considered on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

The terms of the Royalty Agreement have been reached after arm's length negotiations between the Company and AEON. 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 Royalty Agreement and the transactions contemplated thereunder are on normal commercial terms; (ii) the terms of the Royalty 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 Royalty Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of the Company's business.

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

LETTER FROM THE BOARD

Company, will assist the Directors to review and monitor all connected transactions of the Group including the transactions under the Royalty Agreement. 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 the Royalty Agreements to ensure they are conducted within the frameworks and the annual caps of the Royalty Agreements. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under the Royalty Agreement to ensure the transactions are conducted within the framework of the Royalty Agreement and monitor the utilization of the annual caps 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 is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. AEON's subsidiaries and associated companies are principally engaged in the operation of general merchandise stores, the operation of specialty stores, the development of shopping centres as well as services and other operations in Japan and other Asian countries.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, AEON is a connected person of the Company by virtue of it being the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Royalty Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the highest of the applicable percentage ratios in respect of the annual caps under the Royalty Agreement is more than 5%, the transactions contemplated under the Royalty Agreement 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 Royalty Agreement and the annual caps of the 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.

LETTER FROM THE BOARD

Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on pages 14 to 15 of this circular, which contains its recommendation to the Independent Shareholders and the letter from the Independent Financial Adviser set out on pages 16 to 26 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

EGM

Ordinary resolutions approving each of the Royalty Agreement and the annual caps of the transactions contemplated thereunder shall be proposed at the EGM.

In view of AEON's interests in the Royalty Agreement, 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 Royalty Agreement and the annual caps of the transactions contemplated thereunder. Mr. Isei Nakagawa, Mr. Isao Sugawara, Mr. Takenori Nagashima, Mr. Shinya Hisanaga, Ms. Yuki Habu and Mr. Makoto Fukuda are shareholders, ex-employees and/or employees of AEON and are regarded as potentially having a material interest in the Royalty Agreement, they have accordingly abstained from voting on the relevant resolutions at the Board meeting convened to consider the Royalty Agreement. For the same reason, Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga and Yuki Habu 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 26 October 2021 at 3 p.m. is set out on pages N-1 to N-3 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 21 October 2021 to 26 October 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 20 October 2021.

LETTER FROM THE BOARD

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 Royalty Agreement 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 annual caps for the transactions contemplated under the Royalty Agreement 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.

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)

8 October 2021

To: the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
ROYALTY AGREEMENT**

We refer to the circular of the Company dated 8 October 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 Royalty Agreement 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 Royalty Agreement.

We wish to draw your attention to the letter from the Board set out on pages 5 to 13 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 16 to 26 of the Circular which contains its opinion in respect of transactions contemplated under the Royalty Agreement.

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 Royalty Agreement 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 Royalty Agreement 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

8 October 2021

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO ROYALTY AGREEMENT

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 Royalty Agreement entered into between the Company and AEON and the 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 8 October 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter 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 a connected person of the Company by virtue of it being controlling shareholder of the Company. Accordingly, the transactions contemplated under the Royalty Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the highest of the applicable percentage ratios in respect of the Annual Caps is more than 5%, the transactions contemplated under the Royalty Agreement 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.

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 Royalty Agreement and the Annual Caps are fair and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Royalty 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 or their respective substantial shareholders or associates.

During the past two years, we acted as the independent financial adviser and issued opinion letters regarding the Company's continuing connected transactions relating to (i) tenancy agreement as announced on 17 August 2020; and (ii) card acquiring merchant agreement, master services agreement and master trademark licence agreement as contained in the Company's circular dated 13 July 2021. The past engagements were limited to providing independent advisory services to the Company pursuant to the Listing Rules. Under the past engagements, we received normal professional fees from the Company. Notwithstanding the past engagements, as at the Latest Practicable Date, there were no relationships or interests between Somerley on one hand and the Group, AEON 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 Royalty Agreement.

In formulating our opinion, we have reviewed, amongst other things, the Royalty Agreement, the Previous Royalty Agreement, the annual report of the Company for the year ended 31 December 2020 (the "**Annual Report**"), the interim report of the Company for the six months ended 30 June 2021 (the "**Interim Report**") 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 and the rationale of entering into of the Royalty Agreement and the transactions contemplated thereunder.

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 true, accurate and complete up to the time 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 Royalty Agreement, 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 AEON

AEON is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. AEON's subsidiaries and associated companies are principally engaged in the operation of general merchandise stores, the operation of specialty stores, the development of shopping centres as well as services and other operations in Japan and other Asian countries.

3. Reasons for and benefits of entering into the Royalty Agreement

Pursuant to the Previous Royalty Agreement, the Company and its Affiliates (through the Company) has been granted various rights to use the Trade Marks and the Know-How from 1 January 2019 to 31 December 2021. The Trade Marks, which are well known in Hong Kong, Macau and Guangdong Province of the PRC, are essential to the operations and success of the Group. In addition, the Know-How which comprises information and knowhow used, employed or developed by AEON for the management and operation of retail stores, wholesale business and related supporting facilities can benefit the operations of the Group. Thus, the use of the Trade Marks and the Know-How by the Group would continue to benefit the business development and expansion of the Group in Hong Kong, Macau and the PRC. The Directors considers that the entering into of the Royalty Agreement would secure the continuing usage of the Trade Marks and the Know-How on terms reasonable to the Company and the renewal of the Previous Royalty Agreement is in the interest of the Company and its Shareholders as a whole.

Having considered that (i) the Group is principally engaged in the operation of general merchandise stores with the use of the Trade Marks and the Know-How; and (ii) the Previous Royalty Agreement will expire after 31 December 2021 and the renewal is to ensure the Group's business operation continuity in Hong Kong and the PRC which is vital to the Group, we concur with the Directors' view that the entering into of the Royalty Agreement is in the ordinary and usual course of business of the Group.

4. Principal Terms of the Royalty Agreement

Pursuant to the Royalty Agreement, the Company and its Affiliates (through the Company) shall be (i) granted an exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business in Hong Kong and Macau; (ii) granted a non-exclusive right to use the Trade Marks in relation to other businesses in Hong Kong, Macau and the PRC; and (iii) provided with full particulars of the Know-How and granted the non-exclusive right to use the Know-How in relation to the Business in Hong Kong, Macau and the PRC and in return the Company shall pay to AEON in each financial year a fee equal to (a) an amount representing 0.2% of the audited consolidated Total of Revenue of the Company and its Affiliates; and (b) an amount representing 0.05% of the audited Total of Revenue of the Company and its Affiliates in respect of the Business in Hong Kong and Macau, both for such financial year.

We are advised by the management of the Group that an extra fee of 0.05% will be charged on the audited Total of Revenue of the Group in respect of the Business in Hong Kong and Macau due to the granting of the exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business within Hong Kong and Macau. In short, the total fee charged by AEON to the Company will not be more than 0.25% of the Total of Revenue of the Group for the exclusive and non-exclusive rights to use the Trade Marks and the Know-How under the Royalty Agreement.

We have discussed with the management of the Group and are advised that only member companies of the AEON group have been granted the right to use the AEON trademarks and know-how and therefore no third party transactions are available for comparison. We have reviewed (i) the Previous Royalty Agreement entered into between the Company and AEON and noted that the pricing terms under the Royalty Agreement are materially the same as those under the Previous Royalty Agreement; and (ii) two royalty agreements entered into of between AEON and fellow subsidiaries of the Company relating to the grant of non-exclusive right by AEON to use the trade name, trademarks and know-how for the operation of general merchandise stores in the PRC excluding Guangdong Province and noted that the terms of the agreements are similar to those under the Royalty Agreement and the royalty fee charged by AEON are the same (i.e. 0.2% of the revenue of the group for the relevant financial year).

We have also endeavoured to identify comparable transactions involving the similar royalty arrangement in the past three years (i.e. from 1 September 2018 to the Latest Practicable Date, the “**Review Period**”), where (i) the licensee obtains the right to use the trademarks for retailing and either itself, its holding company or its counterparty is 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 having disclosed pricing terms and remain effective. However, among the 21 Main Board listed companies (excluding the

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Company) within the department stores and shopping malls category, no comparable transaction is identified. We have then looked into the listing documents of such 21 listed companies, if they are available on the Stock Exchange's website, and noted that there are a total of 11 transactions involving the licensing of trademarks/trade names/brand/logo for the operation of department stores and supermarkets. Only four transactions disclosed the pricing and their bases were similar to that under the Royalty Agreement (the "**Primary Comparable Transactions**") and the rest of the transactions either did not disclose the pricing terms or, if disclosed, had fixed lump sum prices, which were not useful for comparison purpose. Details of the Primary Comparable Transactions are set out below:

Date	Company (stock code)	Transaction description	Pricing terms
4 Jul 2011	Sun Art Retail Group Limited (6808)	The grant of a non-exclusive and non-transferable licence of certain trademarks by a connected person of the company to a member of the group for use in connection with its businesses in the PRC.	0.2% of the total income (VAT excluded) of the licenced member of the group.
21 Apr 2008	Maoye International Holdings Limited (848)	The provision of management services, including the grant of licence to use certain trademark of the company, by the company to its connected persons for two departments stores in the PRC.	A management fee equivalent to the sum of (i) 1.8% of the total sales proceeds of the relevant stores and (ii) 10% of the profit before tax of the relevant stores.
8 Mar 2006	Golden Eagle Retail Group Limited (3308)	The provision of comprehensive services by the group to its connected person involving certain general consultancy services and the right to use the group's certain trademark in Shanghai.	0.1% of the total gross sales generated by the connected person.
17 Jun 2003	Lianhua Supermarket Holdings Co., Ltd. (980)	The provision of management services by the company to its associate for the hypermarket business operations involving supply of merchandise and authorisation to use certain marks and logos of the company.	The annual management fee (which includes the licence fee) is 0.1–0.2% of the annual turnovers of the relevant hypermarkets.

The Primary Comparable Transactions were more than 10 years ago. The fees payable for the use of trademarks ranged from 0.1–0.2% of the sales to 1.8% of the sales plus 10% of the profit before tax. The royalty fee of 0.20%–0.25% of the Total of Revenue charged under the Royalty Agreement falls within the range of those of the Primary Comparable Transactions.

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We also 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. Among the 133 Main Board listed companies within the aforementioned categories, ten licensing arrangements relating to the obtaining/granting of the right to use the trademarks in connection with the sales of merchandise is identified, out of which two transactions involved in the operation of retail/online stores with pricing basis similar to that under the Royalty Agreement (the “**Secondary Comparable Transactions**”, together with the Primary Comparable Transactions as the “**Comparable Transactions**”). The Comparable Transactions, based on the above selection criteria, so far as we are aware of, are exhaustive, and are thus considered to be fair and representative samples. Details of the Secondary Comparable Transactions are set out in the table below:

Date	Company (stock code)	Transaction description	Pricing terms for the use of trademark(s)
21 Sep 2020	Trinity Limited (891) (“Trinity”)	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 of the licensed products bearing the licensed trademarks achieved by the licensee (and all sub-licensees, if applicable).
31 May 2019	Sterling Group Holdings Limited (1825)	The grant of a non-transferable licence by the group to a third party (“ Sterling Licencee ”) to utilize the licenced intellectual property of the group in the manufacturing, marketing, sale, and distribution of the relevant products solely within the licenced territories.	<p>(i) 0.4% of all gross sales for the first US\$40 million of the products bearing or utilising any of the licenced intellectual property in the 12 month period after the date of the license agreement;</p> <p>(ii) 1% of gross sales on all gross sales after exceeding US\$40 million through the remainder of the term of the license agreement; and</p> <p>(iii) minimum amount of the royalty payment would be US\$120,000 per annum.</p>

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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 calculated based on royalties collecting from third parties, the pricing basis of which is considered to be different from that under the Royalty Agreement.

As advised by the management of the Group, the Trade Marks are mainly for use in the operation of retail stores, related promotion and advertising purpose which, in our view, is similar to those under the Secondary Comparable Transactions as each of Trinity and Sterling Licencee obtains the rights to use the trademarks to operate online and/or retail stores (as the case may be). In addition, the pricing basis under the Royalty Agreement which is determined based on a percentage of the Total of Revenue deriving from the sales of goods and rentals collected at the premises bearing the Trade Marks is similar to those of the Secondary Comparable Transactions. However, Trinity and Sterling Licencee were also granted the right to manufacture and sell the fashion products bearing the trademarks whereas the Group obtains the trademarks primarily for operating retail stores selling a wide variety of products without bearing the Trade Marks. This may also explain why the royalty fees of 0.4%–5% of the relevant sales payable by Trinity and Sterling Licencee are higher than 0.20%–0.25% under the Royalty Agreement.

Despite there is a difference between the Secondary Comparable Transactions and the Group's, they can still serve as reference to compare the pricing of the Royalty Agreement. Having considered that (i) the pricing basis under the Royalty Agreement is similar to the Comparable Transactions; (ii) the royalty fee of 0.20%–0.25% of the Total of Revenue charged under the Royalty Agreement falls within the range of those of the Primary Comparable Transactions and is lower than those of the Secondary Comparable Transactions; and (iii) the terms of the Royalty Agreement are similar to those under the royalty agreements entered into between AEON and fellow subsidiaries of the Company and the applicable royalty fee charged by AEON are the same across those fellow subsidiaries and the Group, we consider the pricing of the Royalty Agreement to be fair and reasonable.

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5. The Annual Caps

We have reviewed and discussed with the management of the Group their estimated royalty fee payable to AEON for determining the Annual Caps covering 2022 to 2024. A summary of the Group's projections prepared by the management of the Group is set out below:

<i>(HK 'million)</i>	For the year ended		For the	For the year ending 31 December			
	31 December	2020	six months	2021	2022	2023	2024
	2019	2020	ended 30 June	2021	2021	2022	2023
	Actual amount			Estimated amount			
Total of Revenue of the Group	12,091.1	12,232.5	6,009.6	12,409.5	13,235.7	14,333.5	15,394.0
Royalty fee of 0.20%	24.2 ⁽¹⁾	24.5 ⁽¹⁾	12.0 ⁽¹⁾	24.8	26.5	28.7	30.8
Total of Revenue of the Group in respect of the Business in Hong Kong	4,999.9	5,489.8	2,570.2	5,182.0	5,419.9	5,699.9	6,108.3
Royalty fee of 0.05%	2.5 ⁽¹⁾	2.7 ⁽¹⁾	1.3 ⁽¹⁾	2.6	2.7	2.8	3.0
Total royalty fee paid/payable to AEON	26.5 ⁽¹⁾	27.5 ⁽¹⁾	13.4 ⁽¹⁾	27.4	29.2	31.5	33.8
Buffer of 10%	NA	NA	NA	NA	2.9	3.2	3.4
Annual Caps	40.0	40.0	40.0	40.0	32.1	34.7	37.2
Utilisation rate	66.3%	68.8%	33.5% ⁽²⁾	NA	NA	NA	NA

Notes:

⁽¹⁾ The total royalty fees payable to AEON are extracted from the Company's annual reports for 2019 and 2020 and interim report for 2021 and are not an arithmetic aggregation of the royalty fees of 0.20% and 0.05% in the above table. As advised by the management of the Group, this is mainly due to different exchange rates used between their in-house record and accounting purposes.

⁽²⁾ Calculated based on the annual cap for 2021.

According to the management of the Group, the Total of Revenue (i) comprises of direct and concessionaire sales and rental income from both Hong Kong and PRC operations where rental income only account for less than 5% of the Total of Revenue; and (ii) is highly dependent on the number of stores and their business performance. We are advised by the management that the Total of Revenue being lower or expected to be lower than the estimated revenue when determining the existing caps for 2019–2021 was largely due to the deterioration of the Sino-US relations and social unrest in

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Hong Kong in 2019 and the outbreak of COVID-19 in early 2020 which disrupted the Group's original store expansion plan for 2019–2021 and impacted the business performance of its stores. In addition, since the outbreak of the pandemic, the Group had recorded unsatisfactory results as customers' lifestyles and consumption pattern have been hugely affected by it. In 2020, the growth in the Total Revenue of the Group was sluggish due to the poor performance of the PRC operations and the substantial decline in the rental income following the outbreak of COVID-19, which was offset by a substantial increase in total sales from Hong Kong supermarket division due to increase in homestay. In the first half of 2021, the demand for stay at home related items was less than the corresponding period in 2020 as the dining out restriction measures are eased in Hong Kong and the rebound of COVID-19 cases reported in May and June in certain Guangdong cities in the PRC had contributed to the slight decline in revenue of the Group as stated in the Interim Report. According to the management, the Total of Revenue for the six months ended 30 June 2021 was around HK\$6 billion.

As advised by the management of the Group, the estimated Total of Revenue for 2022–2024 are projected based on the estimation of direct and concessionaire sales and rental income from both Hong Kong and PRC operations after having considered the Group's future business development plan (including the opening of new stores) as set out in its latest five-year budget approved by the Board in the fourth quarter of 2020 and the recent market conditions and sales performance of the Group. It is expected that (i) the average number of stores in Hong Kong and the PRC will increase from 121.0 in 2021 to 214.0 in 2024 with an average of 31.5, 33.5 and 28.0 new stores (out of which 8.5, 10.0 and 10.5 stores are supermarkets and general merchandise stores (GMS)) to be opened in 2022, 2023 and 2024, respectively; and (ii) new supermarkets and GMS will be the main growth drivers for the Total of Revenue. In respect of the Group's store expansion plan, we are advised by the management that after the outbreak of COVID-19, rental rates have declined significantly in Hong Kong and more suitable sites are available for the Group to consider for the opening of new stores. With rental expenses having been one of the major cost items of the Group, the management considers it appropriate to capture this opportunity to further implement its store expansion plan in order to enhance its revenue and profitability. The management of the Group considers and we also concur that should the Annual Caps be determined only with reference to the number of stores in the past, it would possibly be unduly burdensome for the Company to re-seek the approval for revised annual caps from the Shareholders and the Group might even fail to capture the opportunities for its further store expansion in the next three years. On these bases and given a large portion in the number of stores are small size stores, we consider the Group's store expansion plan to be reasonable. Therefore, according to the revenue projection provided by the management of the Group, the Total of Revenue of the Group is expected to be HK\$13,235.7 million in 2022, HK\$14,333.5 million in 2023 and HK\$15,394.0 million in 2024, representing a year-on-year increase of 6.7%, 8.3% and 7.4%, respectively. On the basis that the Total of Revenue growth trend for 2022–2024 is in line with the increase in average number of new stores, such projection is considered to be reasonable.

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The estimated Total of Revenue of the Group in respect of the Business in Hong Kong is also affected by the number of relevant stores. As advised by the management of the Group, only the revenue generated from three types of stores, namely “AEON Style”, GMS and supermarkets, will be subject to an extra royalty fee of 0.05%. Based on the business development plan provided by the management of the Group, the Group plans to increase the average number of “AEON Style”, GMS and supermarkets from 11.5 in 2021 to 16.0 in 2024 with an average of 1.0, 1.5 and 2.0 new supermarkets to be opened in 2022, 2023, 2024, respectively. Thus, the Total of Revenue generated from the Business in Hong Kong is projected to be HK\$5,419.9 million, HK\$5,699.9 million and HK\$6,018.3 million for each of 2022, 2023 and 2024, representing year-on-year increases of 4.6%, 5.2% and 5.6% respectively. On the basis that the gradual increase in the projected Total of Revenue generated from the Business in Hong Kong for 2022–2024 is in line with the increase in average number of relevant stores including new supermarkets which are the revenue growth drivers, such projection is considered to be reasonable.

A buffer of 10% is applied to the estimated royalty fee payable to AEON 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 Total of Revenue resulting from, among other things, additional number of stores and/or exchange rate fluctuations.

Given the Annual Caps are determined based on (i) the estimated direct and concessionaire sales and rental income after having considered the Group’s store expansion plan as set out its 5-year budget and the recent market conditions and sales performance; and (ii) a buffer of 10%, we are of the view that the basis in arriving at the Annual Caps are 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 the Royalty Agreement. 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 the Royalty Agreement to ensure they are conducted within the frameworks and the annual caps of the Royalty Agreement. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under the Royalty Agreement to ensure the transactions are conducted within the framework of the Royalty Agreement and monitor the utilisation of the annual caps to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

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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 Royalty Agreement 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 the Royalty Agreement are conducted in accordance with the terms therein. Furthermore, we noted from the Annual Report that the transactions under the Previous Royalty Agreement were carried out within their respective applicable annual cap for 2020.

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 Royalty Agreement 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 transactions contemplated under the Royalty Agreement are relating to 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 Royalty Agreement are on normal commercial terms and fair and reasonable and the basis 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 Royalty Agreement and the Annual Caps.

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

Ms. 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 Co., Ltd. is 2,400 shares.
- (2) As confirmed by Mr. HISANAGA Shinya, his shareholding in AEON Co., Ltd. is 2,030 shares.
- (3) As confirmed by Ms. HABU Yuki, her shareholding in AEON Co., Ltd. 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
abrdn plc (formerly known as Standard Life Aberdeen plc) and its affiliated investment management (together the “ abrdn Group ”) on behalf of accounts managed by the abrdn Group	15,464,000 (<i>Note 2</i>)	5.95

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Note:

- (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 abrtn Group, these shares are held by the abrtn Group on behalf of accounts managed by the abrtn Group in the capacity of an investment manager and the abrtn 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 and China 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

APPENDIX — GENERAL INFORMATION

which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, 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

References are made to the profit warning announcement dated 18 June 2021, the profit warning supplemental announcement dated 20 August 2021, the interim report for the six months ended 30 June 2021 dated 27 August 2021 regarding the performance of the Group for the six months ended 30 June 2021 and the related information included therein. Save as disclosed in the publication above, as at the Latest Practicable Date, the directors are 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 licenced to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO

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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;
- (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 Royalty Agreement;
- (3) the Previous Royalty Agreement;
- (4) the annual report of the Company for the year ended 31 December 2018;

APPENDIX — GENERAL INFORMATION

- (5) the annual report of the Company for the year ended 31 December 2019;
- (6) the annual report of the Company for the year ended 31 December 2020;
- (7) the interim report of the Company for the six months ended 30 June 2021;
- (8) the letter from the Board, the text of which is set out on pages 5 to 13 of this circular;
- (9) the letter from the Independent Board Committee, the text of which is set out on pages 14 to 15 of this circular;
- (10) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 26 of this circular;
- (11) the written consent referred to in the section headed “11. Expert and consent” in this appendix; and
- (12) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of 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 26 October 2021 at 3 p.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 8 October 2021.

ORDINARY RESOLUTION

“THAT:

- (a) the transactions contemplated under the Royalty 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 caps 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 Royalty Agreement and the transactions contemplated thereunder and the annual caps 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 Royalty Agreement or the transactions contemplated thereunder and/or the annual

NOTICE OF EXTRAORDINARY GENERAL MEETING

caps 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.”

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

Hong Kong, 8 October 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 21 October 2021 to 26 October 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 20 October 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 1:00 p.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 26 October 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 EGM, the Company would like to inform shareholders that there will be no distribution of corporate gift or serving of refreshment in the EGM 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 EGM 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.
