
IMPORTANT

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 licensed securities dealer or registered institution 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 to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities 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)

MAJOR TRANSACTION IN RELATION TO THE TENANCY AGREEMENT

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 3 to 10 of this circular.

The transaction being the subject matter of this circular has been approved by written shareholder’s approval pursuant to the Listing Rules and this circular is being despatched to the Shareholders for information only.

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

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DEFINITIONS

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

“AEON Co.”	AEON Co., Ltd., a company incorporated in Japan with limited liability and the issued shares of which are listed on the Tokyo Stock Exchange
“Board”	board of Directors
“Company”	AEON Stores (Hong Kong) Co., Limited (永旺(香港)百貨有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 984)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Department Store/ Superstore”	the designated trade under the Tenancy Agreement for the sale of general provision, health and beauty aid items, household products, fresh food products, wine and spirit, dairy and frozen food, fresh produce, fresh meat and fish, fresh convenience food packs, electrical appliances, food and beverage items, other high quality supermarket items on par with those sold in similar scale supermarkets in other reputable shopping centres only and such other goods and services as approved by the Landlord, provided that not more than 20% of the internal floor area of the Premises I shall be used as food and beverage outlets
“Director(s)”	the director(s) of the Company
“Gross Receipts”	gross receipts attributable to the Company’s business at the Premises
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	person or company independent of the Company and its connected persons under the Listing Rules
“Landlord”	The Hong Kong Housing Authority, a body corporate established under the Housing Ordinance (Cap. 283 of the laws of Hong Kong)

DEFINITIONS

“Latest Practicable Date”	1 December, 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
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Premises”	<p>The premises comprising</p> <p>I. shops Nos. 101, 102, 106 and 107 on 1st Floor, and shops Nos. 201, 202 and 208 on 2nd Floor, and</p> <p>II. one Internal Advertising Light Box on Ground Floor and Two Outdoor Advertising Banner Spaces outside the Building Facades on LG2 Floor and 1st Floor</p> <p>of Domain, Yau Tong, Kowloon, Hong Kong.</p>
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the share(s) in the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement”	the Tenancy Agreement dated 1 November 2021 between the Landlord and the Company in relation to the tenancy of the Premises, subject to execution by the Landlord
“%”	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

7 December 2021

To the Shareholders

Dear Sir or Madam

**MAJOR TRANSACTION IN RELATION
TO THE TENANCY AGREEMENT**

INTRODUCTION

Reference is made to the announcement of the Company dated 28 October 2021 in relation to, among other things, the Tenancy Agreement.

On 1 November 2021, the Company (as tenant) and the Landlord (as landlord) entered into the Tenancy Agreement in respect of the tenancy of the Premises for a term of nine years commencing from the 1 November 2021 for operation of the Company's new retail businesses therein.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Tenancy Agreement, (ii) a valuation of the leasehold interests of the Premises and (iii) the financial information of the Group.

THE TENANCY AGREEMENT

The principal terms of the Tenancy Agreement are as follow:

- Date: 1 November 2021
- Parties: the Company, as tenant; and
the Landlord, as landlord
- Premises: The premises comprising
- I. shops Nos. 101, 102, 106 and 107 on 1st Floor, and shops Nos. 201, 202 and 208 on 2nd Floor, and
 - II. one Internal Advertising Light Box on Ground Floor and Two Outdoor Advertising Banner Spaces outside the Building Facades on LG2 Floor and 1st Floor
- of Domain, Yau Tong, Kowloon, Hong Kong.
- Term: Fixed term of nine years from 1 November 2021 to 31 October 2030, provided that the tenancy cannot be terminated by the tenant before the expiry of the term. There is no provision for renewal upon expiry of the term.
- Usage: Premises I are restricted for the business of Department Store/Superstore under the trade name of “AEON STYLE” and not more than 20% of the internal floor area of the Premises I shall be used as food and beverage outlets.
- Premises II are restricted for the display of the Company’s name and advertising of the Company’s business at the Premises.

LETTER FROM THE BOARD

Consideration payable: The monthly rent payable by the Company comprises monthly base rent and turnover rent. The total base rent payable under the Tenancy Agreement during the term is approximately HK\$147.2 million, comprising monthly rent of approximately HK\$1.201 million per month for the first year of the term (the first three months being a rent-free period), approximately HK\$1.293 million per month for the second and third years of the term, approximately HK\$1.386 million per month for the fourth and fifth years of the term, approximately HK\$1.478 million per month for the sixth and seventh years of the term and approximately HK\$1.524 million per month for the eighth and ninth years of the term.

A monthly turnover rent shall be in the amount by which 3% of the monthly Gross Receipts exceeds the monthly base rent for that month.

The monthly rent is exclusive of government rates, air-conditioning charges, other charges and outgoings. The rent has been offered by the Company after taking into consideration the prevailing market rent for comparable premises in the vicinity of the Premises.

The consideration will be satisfied by internal resources of the Group.

Payment term: The monthly base rent, rates and air-conditioning charges shall be payable monthly in advance on the first day of each and every calendar month. The turnover rent (if payable pursuant to the terms and conditions of the Tenancy Agreement) shall be payable in arrears on the 15th day of the subsequent calendar month.

Rent Free Period: Three (3) months from the commencement of the Term.

Deposit: A deposit of HK\$4 million have been paid by the Company upon signing of the Tenancy Agreement.

INFORMATION OF THE PARTIES

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

The Landlord is a statutory body corporate established under the Housing Ordinance (Cap.283). It develops and implements a public housing programme which seeks to achieve the Hong Kong Government's policy objective.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Landlord and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR AND BENEFITS OF ENTERING INTO THE TENANCY AGREEMENT

The principal business of the Group is the operation of retail businesses through chain stores under the trade names of "AEON STYLE", "AEON" and "AEON SUPERMARKET" in Hong Kong and the PRC. Due to the nature of its retail businesses, the Group has to enter into tenancy agreements for the leasing of retail stores from time to time. Each of the retail stores, especially sizable stores like the Premises, contributes to and maintains the Group's scale of operation which in turn benefits the Group in lowering the overall operation costs, in enhancing the Group's negotiations with its business partners and in expending its store network and market shares.

The terms of the Tenancy Agreement, including the rental charge, were determined by reference to the open market rent of comparable properties and the rental payment made for other retail stores operated by the Group taking into account the expected increment in the coming years. The total monthly base rents payable under the Tenancy Agreement during the term of nine years represent an average increment of approximately 3% per annum, which the Board considers to be reasonable taking into account the increase in rent in the past years and the expected increase in the coming years for comparable properties. The entering into of the Tenancy Agreement is for the purpose of operation of the retail business in the ordinary and usual course of business of the Group. Based on the above, the Board considers that the terms of the Tenancy Agreement are on normal commercial terms and are fair and reasonable and the entering into of the Tenancy Agreement is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION CONTEMPLATED UNDER THE TENANCY AGREEMENT

Pursuant to HKFRS 16, the entering into the Tenancy Agreement by the Company as tenant will require the Group to recognise the Premises as a right-of-use asset. Therefore, the entering into the Tenancy Agreement will be regarded as an acquisition of asset by the Group under the Listing Rules. Set out below is the accounting treatment of the Group in relation to the right-of-use asset.

The right-of-use asset is initially measured at the amount of the lease liability plus adjustments required for deposits payments. After lease commencement, a tenant shall measure the right-of-use asset using a cost model, unless:

- (1) the right-of-use asset is an investment property and the tenant fair values its investment property under HKAS 40;
- (2) or (ii) the right-of-use asset relates to a class of plant, property and equipment to which the tenant applies HKAS 16's revaluation model, in which case all right-of-use asset relating to that class of plant, property and equipment can be revalued.

LETTER FROM THE BOARD

Under the cost model, a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the tenant shall use their incremental borrowing rate. The Company assessed the recoverable amount of the right-of-use asset and considered that there was no impairment loss of right-of-use asset upon the initial recognition.

The value of right-of-use asset recognised by the Company under the Tenancy Agreement is approximately HK\$112.8 million. Since the Premises will be used for retail stores, the Group's total lease expenses are expected to increase as a result of entering into the Tenancy Agreement.

LETTER FROM THE BOARD

Upon discussion with the valuer and the auditor of the Company, the Directors understand that the accounting treatment for the recognition of right-of-use asset of the Premises is different from the valuation of the Premises performed by the valuer as the two sets of figures are prepared based on two different professional standards for different purposes. The following table summarises the differences between the property valuation of the Premises and accounting treatment in respect of right-of-use asset of the Premises:

	Property Valuation	Accounting Treatment
Professional standards adopted	HKIS Valuation Standards 2020	HKFRS 16
Valuation amounts and accounting figures	(i) Market rent of HK\$1.2 million per month, exclusive of government rent, rates, management fees and utility charges; and (ii) capitalised value of the nine-year tenancy of approximately HK\$106 million	Recognition of right-of-use asset under the Tenancy Agreement of approximately HK\$112.8 million.
Difference between the property valuation approach and accounting treatment in respect of the Tenancy Agreement	The market approach is adopted. Recent rental transactions of comparable properties are analysed and compared with the subject property on unit rent basis. Appropriate adjustments are made to reflect the material differences.	The lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the incremental borrowing rate. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus adjustments required for deposits payments. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.
Key parameters used in the calculation of the capitalised value and right-of-use asset	A capitalisation rate of 4.25% for the Premises, estimated with reference to the yields generally expected by the market for comparable properties of similar use type, which implicitly reflects the type and quality of the Premises.	(i) Summation of present value of rents (initially approximately HK\$1.2 million per month) agreed under the Tenancy Agreement; and (ii) A discount rate based on the incremental borrowing rate of approximately 6.76% per annum.

LETTER FROM THE BOARD

The capitalised value of the Tenancy Agreement is calculated based on market data and valuer's adjustments and is solely for illustrating the fair market level for comparable lease whereas the right-of-use asset is calculated based on the Company's data such as agreed rents under the Tenancy Agreement and other relevant costs to serve the Company's accounting purposes. Therefore, the calculations above do not necessarily yield the same result.

IMPLICATIONS UNDER THE LISTING RULES

Acquisition of asset by the Company

Pursuant to HKFRS 16, following execution of the Tenancy Agreement by both parties, the Company shall recognise the Premises as a right-of-use asset. Therefore, the transaction contemplated under the Tenancy Agreement will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of right-of-use asset to be recognised by the Group under the Tenancy Agreement is expected to be approximately HK\$112.8 million.

Major transaction

As the highest applicable percentage ratio as defined under the Listing Rules in respect of the transaction contemplated under the Tenancy Agreement based on the value of the right-of-use asset to be recognised by the Group pursuant to HKFRS 16 is 25% or more but is less than 100%, the Tenancy Agreement shall constitute a major transaction of the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge of the Directors, none of the Shareholders or any of their respective associates has a material interest in the Tenancy Agreement and the transaction contemplated thereunder, and therefore, no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written shareholders' approval may be accepted in lieu of holding a general meeting for approving the Tenancy Agreement. The Company has obtained written approval from AEON Co., which holds 155,760,000 issued ordinary shares of the Company (representing 59.91% of its entire issued share capital as at the date of this announcement). As such, the Company is exempted from convening a general meeting to approve the Tenancy Agreement and the transaction contemplated thereunder.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Tenancy Agreement are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
AEON Stores (Hong Kong) Co., Limited
Isei NAKAGAWA
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the year ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 is disclosed in both the websites of the Stock Exchange and the Company. Please refer to the hyperlinks as below:

- Financial information for the year ended 31 December 2018:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0410/ltn20190410428.pdf>
- Financial information for the year ended 31 December 2019:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042201202.pdf>
- Financial information for the year ended 31 December 2020:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300817.pdf>
- Financial information for the six months ended 30 June 2021:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0917/2021091700485.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 15 October 2021, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows.

Bank guarantees

As at 15 October 2021, the Group had aggregate outstanding bank guarantees of approximately HK\$136.7 million, of which approximately HK\$31.4 million is secured by pledged bank deposits and approximately HK\$105.3 million is unsecured. None of the above are guaranteed as at 15 October 2021.

Lease liabilities

As at 15 October 2021, the Group had lease liabilities with outstanding principal amount of approximately HK\$4,535.1 million.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of the business, as at the close of business on 15 October 2021, the Group did not have any debt securities, issued and outstanding, and authorised or otherwise created but unissued, and term loans, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.

3. WORKING CAPITAL STATEMENT

Taking into account the Tenancy Agreement and the financial resources available to the Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, which is for at least the next 12 months from the date of this circular. The Company has obtained the relevant confirmation from its auditor as required under Rule 14.66(12) of the Listing Rules.

4. SIGNIFICANT INVESTMENTS HELD

The Company and its subsidiaries are engaged in the operation of retail stores. The principal activities and other particulars of the Company's subsidiaries are set out in note 43 to the financial statements for the year ended 31 December 2020 as included in the Company's annual report for the year ended 31 December 2020.

5. FOREIGN CURRENCY RISK AND HEDGING

Certain of the Group's purchases are denominated in foreign currencies other than the functional currencies of the operations to which they relate. They expose the Group to foreign currency risk but the Group currently does not have a foreign currency hedging policy. The management of the Company monitors foreign exposure and will consider hedging significant foreign currency exposure should the need arises. The Group has not entered into any trade financial instruments for hedging or speculative purposes.

6. LIQUIDITY

As at 30 June 2021, the Group's total liabilities primarily comprised of lease liabilities amounting to HK\$4,723.1 million, of which HK\$785.0 million is payable within one year. The Group's lease liabilities to equity ratio as at 30 June 2021 (defined as the total lease liabilities divided by total equity) was 829%.

7. EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had approximately 6,900 full-time and 2,600 part-time employees in Hong Kong and the PRC. Total staff costs for the six months ended 30 June 2021 were approximately HK\$565.8 million.

Under the "Everything we do, we do for our customers" credo, in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with essential education opportunities. Under a fair human resources system, the Group will create an energetic work environment for staff and enhance the communications between on-site staff and the back-end support departments, hoping to build a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build the AEON brand that benefits all customers.

8. FUTURE PLANS

According to the Group's investment plan in 2021, the expected total capital expenditure in the second half of the year is approximately HK\$90 million.

9. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Coronavirus Disease 2019 (“COVID-19”) continued to linger in the first half of 2021. Although there were signs of it easing, daily activities around the world were still affected and the retail market was inevitably hit to various extents. To address the challenges the pandemic brings and the continuous changes of customers' behavior under the pandemic, the Group reacted to the market changes as appropriate its operating strategies to maintain its competitiveness.

Hong Kong Operations

With the fourth wave of the COVID-19 attack disrupting consumer activities, especially at the beginning of the review period, and outbound travel grinding to a halt plus strict social distancing measures, private consumption expenditure in the first quarter only grew by a slight 1.6%* year-on-year even though the base for comparison was rather meager. The Hong Kong economy remained weak in the first half of 2021.

As the COVID-19 attack gradually under control and the relaxation of dining out restriction measures, the demand for stay at home related items were less than the corresponding period in last year which affected the sales performance.

Following the extensive renovation of its Tuen Mun store in 2020, the Group completed small scale renovations in 3 stores in Hong Kong. The new layouts of the stores came from thought given to consumers' lifestyle today and also the need to bring in more products that suit the requirements of customers in the neighborhood and seasonal product choices, hopefully to give brand new shopping experiences to customers and to satisfy different customers' specific daily needs.

As for the Group's small scale store business, the Group has pressed on with related expansion plan. During the review period, the Group opened two “Living Plaza” stores and one lifestyle specialty store “ものもの (Mono Mono)”, and reviewed and strengthened the store opening, establishment and operation system.

To further enhance the Group's on line business services, in February 2021, the Group partnered with foodpanda mall to provide Topvalu food products, HOME COORDY household products and frozen food products. By June, the whole line of supermarkets was online, offering sales and home delivery services for a variety of supermarket items.

* *Census and Statistics Department, The Government of the Hong Kong Special Administrative Region*

The Group's Hong Kong operations recorded a 7.0% decrease of revenue to HK\$2,252.6 million in the first half of the year (2020: HK\$2,423.3 million), while loss of the Hong Kong operations increased to HK\$105.9 million (2020: loss of HK\$66.6 million).

The first and the second phase of the consumer vouchers were distributed in August 2021 and October 2021, and at that, it is believed local consumption will get a boost in the second half of 2021. To capture related opportunities, the Group has organized various promotional activities and has launched different bonus offers, so as to bring in revenue as well as help stimulate and revitalize the local economy.

The Group opened its third "AEON STYLE" store at Gala Place, Mongkok in early August 2021. The new "AEON STYLE" business model aims to provide customers with quality shopping experience and new lifestyle solutions. Heeding the characteristics of the Mongkok clientele, the new store will offer products of the Group's proprietary "TOPVALU" brand and TOPVALU Gurinai Natural food products, which are developed with a focus on health and the environment, and also other new products from Japan, presenting customers with a rich mix of products trendy and of quality on par with those from Japan. Moreover, the store will feature "HÓME CÓORDY", AEON's own brand of popular household products, as well as provide customers with a variety of convenient, delicious and healthy food choices to satisfy their pursuit of quality food and home living.

The Group also entered into a new stage of development of its small scale specialty store business. The Group has entered into a strategic agreement with DAISO Group to set up shops using the name of "DAISO" in Hong Kong. The Group expects the strategic partnership with DAISO Group will expedite opening of small scale store in the future.

The Group has signed a tenancy agreement in October 2021 in respect of the tenancy at Domain, Yau Tong, for a term of nine years commencing from 1 November 2021 for operating its fourth "AEON Style" store in the near future.

PRC Operations

In the first half year of 2021, apart from tense external relations slowing down economic growth in the PRC, the rebound of the COVID-19 pandemic in certain areas also directly affected the pace of recovery of various industries.

Under the influence of COVID-19, customers' lifestyles and consumption pattern further tend to shop nearby and online. Number of customers visited and shopped in shopping centres was adversely affected. The rebound of the COVID-19 cases reported in May and June 2021 in Guangzhou, Foshan and Dongguan cities had significantly affected the Group's store business operated in these areas. Some of these stores had to suspend operations temporarily at the command of the authority.

In the first half year, revenue from the PRC operations dropped 6.6% to HK\$2,554.5 million (2020: HK\$2,734.4 million) and recorded a loss of the PRC operations of HK\$123.4 million (2020: profit of HK\$2.1 million).

In the second half of the year 2021, given that the COVID-19 pandemic remains active in Guangdong Province, the Group will continue to respond to the uncertain economic outlook with prudence.

On the product side, the Group will continue to optimize reforms and expand differentiation, such as increasing the share of our own brands to improve profitability.

However, the Group will move forward with its store expansion plan to open three new stores in the latter half year, in addition to three new stores opened in first half year, thereby achieving the set goal of opening six stores in the Greater Bay Area this year.

At the same time, the Group will also accelerate its digital transformation, including the expansion of O2O and the vigorous promotion of CRM. The Group will also continue to consolidate and upgrade other digital platforms. For example, the Group will continue to improve the “AEON Home Delivery” APP, which provides a series of services such as Aeon Scan & Buy, live online sales and home delivery.

The Group will continue to streamline its operating network, aiming for higher operational efficiency and improvement in business performance.

The following is the full text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Cushman & Wakefield Limited, an independent property valuer, in connection with its valuation of the property interests as at 28 October 2021.



27/F One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

7 December 2021

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

Dear Sirs,

Re: Shop Nos. 101, 102, 106 and 107 on 1st Floor and Shop Nos. 201, 202 and 208 on 2nd Floor, One Internal Advertising Light Box On Ground Floor and Two Outdoor Advertising Banner Spaces Outside the Building Facades on LG2 Floor and 1st Floor, Domain, Yau Tong, Kowloon (the “Property”)

INSTRUCTION

We refer to the instruction from AEON Stores (Hong Kong) Co., Limited (the “Company”) for us to provide our opinion of the Market Rent of the Property. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our valuations as at 28 October 2021 (the “Valuation Date”).

BASIS OF VALUATION

Our valuation of the Market Rent of the Property represents its market rent which in accordance with the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

We confirm that our valuation complies with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited published by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2020 Edition issued by the Hong Kong Institute of Surveyors.

VALUATION ASSUMPTIONS

Our valuation of the market rent excludes an estimated rent inflated or deflated by special terms, considerations or concessions granted by anyone associated with the letting, or any element of special value available only to a specific lessor or lessee.

Our valuations have been made on the assumption that the lessor leases the Property on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the market rent of the Property.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its market rent.

METHOD OF VALUATION

In valuing the market rent of the Property, we have adopted the market comparison method. We have gathered recent rental transactions which are registered in the Land Registry and made comparison with the subject Property. After analysing each comparable based on its unit rent, appropriate adjustments have been made to reflect the differences between the Property and the comparables.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information provided by the Company and have accepted advice given to us on such matters as identification of the Property, particulars of occupancy, floor area and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by the Company and are therefore only approximations. We have not carried out on-site measurements to verify the correctness of the area of the Property.

TITLE INVESTIGATION

We have not been provided with copies of the title documents relating to the Property but have caused searches to be made at the Land Registry. In the course of our valuation, we have assumed that the owner of the Property has an enforceable title to the Property and has free and uninterrupted rights to use, occupy, assign or lease the Property for the whole or part of the unexpired term as granted.

SITE INSPECTION

Our valuer, Ms. Kasey Lam, a Probationer of the Hong Kong Institute of Surveyors, inspected the exterior and, whenever possible, the interior of the property on 16 September 2021. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No test was carried out on any of the services. Our valuation is prepared on the assumption that these aspects are satisfactory.

MARKET UNCERTAINTY

The recent outbreak of the Novel Coronavirus (COVID-19) has brought high volatility to global financial markets and uncertainty to the property market. It is expected that property values will be very sensitive to development of the pandemic and changes in the financial markets. The extents of impact on different sectors of the market are different and the time for marketing and negotiating sale of a property will be longer than normal. There will be less certainty as to how long a valuation may sustain and property prices may fluctuate rapidly and materially over a short period of time. Our valuation of the property is valid only at the Valuation Date and any subsequent changes in market conditions as well as the resulting impacts on property values after the Valuation Date cannot be taken into account. If any party intends to make reference to our valuation when entering into any transaction, he must bear in mind the high market volatility during this period of time and that property values may or may not have changed since the Valuation Date.

OTHER DISCLOSURE

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuations have no pecuniary or other interests that could conflict with the proper valuations of the Property or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion.

REPORT

We enclose herewith our valuation report for your attention.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
K. B. Wong
MRICS, FHKIS, RPS (GP)
Executive Director
Valuation & Advisory Services, Hong Kong

Note: Mr. K. B. Wong is a Member of the Royal Institution of Chartered Surveyors, a Fellow of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor who has over 35 years of experience in the professional property valuation and advisory in Hong Kong. Mr. Wong has sufficient current notional knowledge of the market, and the skills and understanding to undertake the valuations competently.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market rent in bare-shell condition as at 28 October 2021
<p>Shop Nos. 101, 102, 106 and 107 on 1st Floor and Shop Nos. 201, 202 and 208 on 2nd Floor, One Internal Advertising Light Box on Ground Floor and Two Outdoor Advertising Banner Spaces Outside the Building Facades on LG2 Floor and 1st Floor, Domain, Yau Tong, Kowloon</p> <p>Situated in New Kowloon Inland Lot No. 6414</p>	<p>Domain is an 8-storey shopping centre comprising retail, ancillary, car park areas and a public transport interchange. It was completed in 2012 as the commercial portion of the Yau Tong Estate Redevelopment Phase 4. It mainly serves the nearby housing estates and neighbouring districts. The locality also provides several private residential developments, among which some are recently completed, and some are under construction and expected to be completed soon.</p>	<p>As at the Valuation Date, the property was vacant.</p>	<p>HK\$1,200,000 (HONG KONG DOLLARS ONE MILLION AND TWO HUNDRED THOUSAND) per month, exclusive of government rent, rates, management fees and utility charges</p> <p><i>(see Note (2) below)</i></p>
	<p>The Property comprises various shop units on the First Floor and Second Floor, an internal advertising light box on the Ground Floor, and two outdoor advertising banner spaces outside the building facades on LG2 Floor and 1st Floor of Domain. A pair of common escalators is provided to allow access to and from 1st and 2nd floors within the subject shop units.</p>		
	<p>Pursuant to the information provided by the Company, the total internal floor area of the subject shop units is 4,291 sq.m. (46,188.32 sq.ft.).</p>		
	<p>The Property is held by the Hong Kong Housing Authority under a Government Lease for 50 years commencing from 9 September 2009. The current government rent payable for the lot is an amount equal to 3% of the rateable value for the time being of the Property per annum.</p>		

Notes:

- (1) The registered owner of the property is Hong Kong Housing Authority. No encumbrance is registered against the Property.
- (2) The valuation is conducted on the assumption that the Property is available to be let for a term of nine years from the Valuation Date on normal commercial terms.
- (3) The property falls within a land use zone for “Residential (Group A)” purpose under the Approved Cha Kwo Ling, Yau Tong, Lei Yue Mun Outline Zoning Plan No. S/K15/25 gazetted on 28 April 2017.
- (4) Assuming the tenancy of the Property commences on the Valuation Date and is freely disposable and transferable, the capitalized value of the market rent under a nine-year tenancy is HK\$106,000,000. We have adopted a capitalization rate of 4.25%, which is estimated by reference to the yields generally expected by the market for comparable properties of similar use type. The adopted capitalization rate implicitly reflects the type and quality of the Property, the expectation of the potential future rental growth, capital appreciation and relevant risk factors, and is, in our opinion, reasonable and in line with the market norm having regard to the analysed yields of transactions of the relevant use type.

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*

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%

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

Directors	Number of shares held as personal interests ^{Note}	Approximate percentage of interests
NAKAGAWA Isei	2,400	0.00028%
HISANAGA Shinya	2,030	0.00023%
HABU Yuki	8,460	0.00097%

Note: The shareholding information above is confirmed by the respective Directors.

(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.

Substantial shareholders	Long positions Number of ordinary shares held	Approximate percentage of the total number of issued shares in the Company
AEON Co.	157,536,000 <i>Note 1</i>	60.59%
abrtn plc (formerly known as Standard Life Aberdeen plc) and its affiliated investment management (together the “ abrtn Group ”) on behalf of accounts managed by the abrtn Group	15,032,000 <i>Note 2</i>	5.78%

Notes:

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

ACS is owned by AEON Co. as to 281,138,000 shares representing 67.13% of the issued share capital of ACS. AEON Co. 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.

Directors	Name of substantial shareholder of the Company	Position in the substantial shareholder of the Company
HABU Yuki	AEON Co.	Executive Vice President Digital Business
FUKUDA Makoto	AEON Co.	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 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

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. EXPERT AND CONSENT

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

Expert	Qualification
Cushman & Wakefield Limited	Independent property valuer

As at the Latest Practicable Date, the above expert:

- (1) 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;
- (2) 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

- (3) 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 published on the Stock Exchange's website and the Company's website for a period of 14 days from the date of this circular (both days inclusive):

- (1) the Tenancy Agreement;
- (2) the valuation report prepared by Cushman & Wakefield Limited, the text of which is set out in Appendix II to this circular; and
- (3) the written consent referred to in the section headed "11. Expert and consent" in this appendix.