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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
THE MASTER SERVICES AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out on pages 5 to 16 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 17 to 18 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 19 to 29 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at the Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong on Thursday, 24 November 2022 at 4:00 p.m. is set out on pages 36 to 38 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, 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjourned meeting if you so wish.

3 November 2022

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PRECAUTIONARY MEASURES FOR THE EGM

Due to the outbreak of the COVID-19 pandemic (the “**Pandemic**”), the Company will implement the following precautionary measures against the Pandemic at the venue of the EGM (the “**Venue**”) to protect the Shareholders and attendees from the risk of infection:

- i. compulsory body temperature check will be conducted for every attendee (including every Shareholder or his/her proxy) at the entrance of the Venue. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the Venue or allowed to attend the EGM;
- ii. every attending Shareholder or proxy is required to scan the “Leave Home Safe” venue QR code, comply with the requirements of the “Vaccine Pass Direction” under the Prevention and Control of Disease (Vaccine Pass) Regulation (Cap. 599L of the Laws of Hong Kong);
- iii. every attendee (including every Shareholder or his/her proxy) is required to wear a surgical facial mask throughout the EGM (no surgical facial mask will be provided at the Venue). Any person who refuses to follow the aforesaid will not be admitted to the Venue or allowed to attend the EGM;
- iv. maintaining proper social distance between seats; and
- v. every attendee (including every Shareholder or his/her proxy) who has travelled from jurisdictions, which according to the Department of Health of Hong Kong would render such person subject to quarantine order prescribed by the Hong Kong Government will not be admitted to the Venue or allowed to attend the EGM.

To the extent permitted by the law, any person who does not comply with the precautionary measures or any legal requirements imposed by the Hong Kong Government for social distancing or prevention of the Pandemic may be denied entry into the EGM venue.

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
“AGSCM China”	永旺環球(北京)國際貨運代理有限公司 (AEON Global SCM (Beijing) Co. Limited), a company incorporated in the PRC and an indirect subsidiary of AEON Co
“AGSCM China Group”	AGSCM China and its subsidiaries
“AGSCM Group”	AGSCM Japan and its subsidiaries including members of the AGSCM China Group
“AGSCM Japan”	AEON GLOBAL SCM Co., Ltd., a company incorporated in Japan and a subsidiary of AEON Co
“ASC”	AEON South China Co., Ltd. (永旺華南商業有限公司), a company incorporated under the laws of the PRC and a direct wholly-owned subsidiary of the Company
“Board”	board of Directors
“Caps”	The maximum aggregated amounts payable by members of the Group to members of the AGSCM Group in respect of the Services (other than the use of Warehouse) pursuant to the Master Services Agreement for each of the periods set out in the paragraph headed “The Cap amount in respect of the services other than the use of warehouse” in the letter from the Board of this circular
“Conditions Precedent”	approval of the Master Services Agreement by the Company’s Independent Shareholders and compliance with all applicable requirements under the Listing Rules by the parties to the Master Services Agreement
“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)

DEFINITIONS

“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
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“Definitive Agreements”	the agreements and/or such other documentation which may be entered into between any member(s) of the Group and any member(s) of the AGSCM Group in relation to any of the Services at any time during the term of the Previous Master Services Agreement or the Master Services Agreement
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting of Shareholders (and any adjournment thereof) to be held to consider resolutions relating to the Master Services Agreement and the transactions contemplated thereunder and any adjournment of such EGM, which is scheduled to be held at the Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong on Thursday, 24 November 2022 at 4:00 p.m.
“EGM Notice”	the notice included in this circular in respect of the EGM to consider and, if though fit, approved the Master Services Agreement and the transactions contemplated thereunder
“GDA”	Guangdong AEON Teem Co., Ltd. (廣東永旺天河城商業有限公司), a company incorporated under the laws of the PRC and a direct non-wholly-owned subsidiary of the Company
“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

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Mr. Chow Chi Tong, Mr. Hideto Mizuno and Ms. Law Chi Yan Joyce
“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 Master Services Agreement
“Independent Shareholders”	Shareholders other than those who have a material interest in the relevant Master Services Agreement
“Latest Practicable Date”	28 October 2022, 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
“Master Services Agreement”	The master services agreement conditionally entered into between the Company and AGSCM Japan on 21 October 2022
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Master Services Agreement”	the master services agreement entered into by the Company and AGSCM Japan on 3 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holders of the shares of the Company from time to time

DEFINITIONS

“Services”	Such consultancy and logistics services to be provided by AGSCM Group under the Master Services Agreement, and such other services as may be agreed between the members of the Group and the members of the AGSCM Group from time to time
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warehouse”	the warehouse of members of AGSCM Group in Dongguan of Guangdong Province, the PRC
“%”	per cent.

LETTER FROM THE BOARD



AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

Executive Directors:

Mr. Isao SUGAWARA (*Managing Director*)

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*)

Mr. Makoto FUKUDA

Mr. Hiroyuki INOHARA

Independent Non-executive Directors:

Mr. CHOW Chi Tong

Mr. Hideto MIZUNO

Ms. LAW Chi Yan Joyce

3 November 2022

To the Shareholders

Dear Sir/Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE MASTER SERVICES AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 21 October 2022 in relation to, among other things, the Master Services Agreement that the Company has conditionally entered into with AGSCM Japan to renew the Previous Master Services Agreement.

LETTER FROM THE BOARD

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

THE MASTER SERVICES AGREEMENT

Reference is made to the announcement of the Company dated 3 December 2019 in relation to the Previous Master Services Agreement.

Under the Previous Master Services Agreement, members of the Group entered into the respective Definitive Agreements with members of the AGSCM Group in relation to the provision of the Services by AGSCM Group. Since (i) the Previous Master Services Agreement and the Definitive Agreements and (ii) certain agreements entered into between members of the Group and an independent service provider shall expire on 30 November 2022, the members of the Group have commenced their respective procurement processes as a continuous effort to explore the possibility of lowering the logistics related costs. In each case, each of the members of the Group has invited service providers, including the respective member of the AGSCM Group and two other service providers, which are parties independent of the Company and its connected persons, to submit tender for providing the Services. The management of the relevant member of the Group made comparison on the available quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders.

Among the quotations received by the Group, the respective members of the AGSCM Group offered the overall lowest fees in the respective tenders. As such, the Company and AGSCM Japan have conditionally entered into the Master Services Agreement on 21 October 2022 so as to enable the respective members of the AGSCM Group to provide the required Services in compliance with the requirements under Chapter 14A of the Listing Rules.

The Master Services Agreement, if approved at the EGM by the Independent Shareholders, will replace and supersede the Previous Master Services Agreement, which will expire on 30 November 2022.

LETTER FROM THE BOARD

Principal terms

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

Date: 21 October 2022

Parties: (a) the Company; and
(b) AGSCM Japan

Term: Subject to the fulfilment of the Conditions Precedent, the term of the Master Services Agreement shall be a period of three years commencing on 1 December 2022 and expiring on 30 November 2025 (both dates inclusive) unless terminated earlier in accordance with the terms of the Master Services Agreement. If the Conditions Precedent have not been fulfilled as certified by the respective party, the Master Services Agreement shall immediately terminate and the parties shall have no claims thereunder save as to any antecedent breach. The parties to the Master Services Agreement may, subject to compliance with the Listing Rules, renew the Master Services Agreement by written agreement.

Scope of Services: The AGSCM Group shall provide the following services to the Group:

Logistics services

The AGSCM Group shall transport merchandise (from supplier) designated by the Group to locations designated by the Group and assist with related matters, including but not limited to the distribution, storage (temporarily in the warehouses in accordance with the Group's operational needs), handling and packaging of merchandise (in the quantity and assortment as designated by the Group), distribution, processing and the processing of logistics information.

Consultancy Services

The AGSCM Group shall first identify issues and/or problems with the existing logistics systems of members of the Group. The AGSCM Group shall then provide proposals for and assistance with, handling and resolving the identified issues and/or problems.

LETTER FROM THE BOARD

Procurement Process: The Group selects providers for logistics and/or consultancy services with reference to prevailing market conditions and based on a procurement process conducted on arm's length basis, and makes their selection based on normal commercial considerations.

Termination: The Master Services Agreement may be terminated by not less than three months prior written notice by either party.

THE PROCUREMENT PROCESS

As part of the procurement procedure of the Group, the relevant member of the Group may, in their sole and absolute discretion, engage service provider(s) to provide logistics and/or consultancy services. If the AGSCM Group is invited to tender, the relevant member of the Group will endeavor to invite quotations or tenders from at least two other independent third-party suppliers for such services. The management of the relevant member of the Group will then compare the available quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. After considering the abovementioned factors, the management of the relevant member of the Group will then decide on which bidder to engage and enter into a service contract with the bidder for the provision of services.

Pursuant to the procurement process so conducted and subject to the approval to be obtained in the EGM, the respective members of the AGSCM Group is selected by:

1. the Company with regard to the use of warehouse and related logistics services in Yokkaichi, Mie Prefecture, Japan;
2. GDA with regard to the logistics services for GDA's warehouse, a service which is currently provided by an independent third party;
3. ASC with regard to the logistics service for ASC's warehouse, a service which is currently provided by an independent third party; and
4. ASC with regard to the use of warehouse and related logistics services in Dongguan of Guangdong Province, the PRC.

LETTER FROM THE BOARD

The service fees (excluding tax) chargeable by the AGSCM Group are summarised as follows:

- (i) for transportation of goods from central Japan to Hong Kong: 1.1% or 4.0% of the merchandise cost for cross-docking goods and goods that require temporary storage, respectively;
- (ii) warehouse processing fee ranging from RMB0.09 to RMB2.20 per piece/case;
- (iii) delivery fee ranging from RMB0.68 to RMB5.02 per case;
- (iv) equipment rental fee ranging from RMB4.03 to RMB3,194 per item per month;
- (v) warehouse management and supporting staff fee ranging from RMB4,468 to RMB10,000 per staff member per month;
- (vi) warehouse rental fee (applicable to ASC's Dongguan operation only) ranging from RMB34.92 to RMB110 per m³ (depending on the usage of spaces); and
- (vii) other miscellaneous charges (e.g. part-time staff fee and pesticide control fee).

Where a member of the AGSCM Group is selected through the abovementioned procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AGSCM Group may from time to time (and AGSCM Japan shall procure such member of the AGSCM Group to) enter into Definitive Agreement(s) setting out the detailed terms under which the relevant member of the AGSCM Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on comparable terms to which the Company and/or the relevant member of the Group procures the Services from independent third parties.

LETTER FROM THE BOARD

THE CAP AMOUNT IN RESPECT OF THE SERVICES OTHER THAN THE USE OF WAREHOUSE

The historical transaction amounts in respect of the Services between the Group and the AGSCM Group and amount of service fee paid to the independent service provider for the part of the Services which will be taken up the AGSCM Group and to be covered under Master Services Agreement are as follows:

	For the year ended 31 December		For the seven months ended
	2020	2021	31 July 2022
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
With the AGSCM Group	10.6 million	10.4 million	5.8 million
With independent service provider	28.1 million	29.3 million	19.3 million

The historical annual cap determined for each of the year/period for the Services with the AGSCM Group is as follows:

	For the year ended 31 December		For the eleven months ended
	2020	2021	30 November 2022
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
The annual cap for transactions with the AGSCM Group	19.65 million	19.65 million	18.01 million

The actual historical services fees paid to the AGSCM Group were lower than expected when determining the caps back in 2019 largely due to the fact that (i) it took longer time for the Group to build up relationships with different manufacturers and suppliers in Japan after adopting the current TOPVALU products procurement arrangement since January 2019, (ii) the unsatisfactory performance of the PRC operations following the outbreak of the COVID-19 pandemic in 2020 and the slower than expected recovery due to intense competition from online stores; and (iii) the inability to sustain the sales trends of certain merchandise during pandemic and subsequent period.

LETTER FROM THE BOARD

The Directors estimate that the maximum amount payable by the Company to the AGSCM Group under the Master Services Agreement on an annual basis will not exceed the Caps below:

Financial Year/Period	Annual caps <i>RMB</i>
1 December to 31 December 2022	3.7 million
1 January to 31 December 2023	56.5 million
1 January to 31 December 2024	61.6 million
1 January to 30 November 2025	64.2 million

In arriving at the Caps, the Directors have taken into account (i) the aggregate historical amount of the service fee paid to the AGSCM Group and the independent service provider for the Services; (ii) the potential increase in both the scope and volume of the Services; (iii) the tender results obtained through the procurement process; (iv) recent market conditions and sales performance of members of the Group; (v) the Group's sales projection and business expansion plans; and (vi) a buffer of 10%.

The right-of-use assets in respect of the use of Warehouse are excluded from the calculation of the above Caps.

The Directors consider that the historical transaction amounts is only one of the factors in arriving at the proposed Caps. The other factors such as the service utilization patterns in order to meet the ever-changing consumers' needs, the new tendered service fee rates set out in "The Procurement Process" section above and the timing of new stores opening take a heavier weight in the process of determining the proposed Caps.

For the Company, the Group has applied the new rates as quoted by the AGSCM Group and built in a 15% year-on-year increment on the relevant merchandise cost for the period from December 2022 to November 2024 after having considered (a) the actual annual increase in service fee paid to AGSCM Group for the first seven months of 2022; and (b) the possible rebound of the Japanese Yen in the future.

For GDA, based on the new rates as quoted by the AGSCM Group and the expected procurement amount from existing and new stores based on its store expansion plan, the Group expected the service fee payable will increase by 25.7% for 2023 (as compared to the annualised figure of the actual amount in the first seven months of 2022), 11.7% for 2024 and 17.7% for 2025 (annualised).

For ASC, based on the new rates as quoted by the AGSCM Group, the extension of the scope of the Services and its business performance and plan, the Group expects an increase in service fees by 7.6% for 2023 as compared with the annualized figure of the actual amount in the first seven months of 2022 and remain at same level for 2024 and 2025.

LETTER FROM THE BOARD

Taking into account the above, the Directors consider that the Caps for the Master Services Agreement are fair and reasonable.

USE OF WAREHOUSE

Pursuant to HKFRS 16, the use of Warehouse pursuant to the Master Services Agreement during the term of the Master Services Agreement will require the Group to recognize the use of Warehouse as an acquisition of a right-of-use asset of the Group in the aggregated amounts of approximately RMB8.5 million, which is regarded as a one-off connected transaction pursuant to the Listing Rules.

The warehouses, which are to be covered under the Master Services Agreement or a Definitive Agreement signed thereunder, are currently located at Dongguan of Guangdong Province, PRC and Yokkaichi, Mie Prefecture of Japan. The use of the warehouses by the Group is part of the logistics services which the AGSCM Group will provide, whereas the AGSCM Group will transport merchandise from suppliers designated by the Group to locations designated by the Group and assist with related matters, including distribution and storage in the warehouses. As such, it is expected that the Group will use the warehouses during the entire term of the Master Services Agreement.

The Warehouse, which is located at Dongguan City of Guangdong Province, The PRC, is approximate of the size of 4,046 m². For the use of the Warehouse, a fixed monthly fee of approximately RMB238,000 (excluding tax) is payable to the AGSCM Group. The term of use of the Warehouse will be commencing on 1 December 2022 and ending on 30 November 2025. For the warehouse located at Yokkaichi, Mie Prefecture of Japan (“**Yokkaichi Warehouse**”), no fixed monthly fee is payable for the use of the Yokkaichi Warehouse since the service fees payable to the AGSCM Group for provision of the logistics services have included the fees payable for the use of the Yokkaichi Warehouse.

The monthly fee for use the Warehouse is excluded from the calculation of the Caps, while the use of the Yokkaichi Warehouse, which does not form part of the acquisition of the right-of-use assets, is included in the calculation of the Caps.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the acquisition of the right-of-use asset are 0.1% or more but less than 5%, the transactions contemplated under the Master Services Agreement in respect of the part on use of Warehouse constitutes a connected transaction for the Company and is subject to the announcement requirement but are exempt from circular and shareholders’ approval requirements under Chapter 14A of the Listing Rules. As such, the use of warehouse under the Master Services Agreement will not form part of the continuing connected transaction, which will be considered, and if thought fit, approve at the EGM.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER SERVICES AGREEMENT

The AGSCM Group has been providing the basic logistics services to the Group under the Previous Master Services Agreement and has become familiar with the Group's business operations. The Directors consider that the engagement of members of the AGSCM Group, which specialize in the provision of logistics related services and supply chain management, to provide the Services on a larger scale and in the ordinary and usual course of businesses, subject to member of the AGSCM Group being selected under the Group's procurement process, would allow the Group to further improve the efficiency of the Group's logistics system and enhance the Group's control of its operation costs.

The terms of the Master Services Agreement have been reached after arm's length negotiations between the Company and AGSCM Japan. The Directors (including the independent non-executive Directors) are of the view that (i) the entering into of the Master Services Agreement is in the ordinary and usual course of business of the Group; (ii) the terms of the Master Services Agreement are on normal commercial terms; and (iii) the terms of the Master Services Agreement and the Caps are fair and reasonable and in the interest of the Company and its shareholders as a whole.

At a Board meeting convened to consider the Master Services Agreement, Mr. Isei Nakagawa, Mr. Isao Sugawara, Mr. Takenori Nagashima, Mr. Shinya Hisanaga, Mr. Makoto Fukuda and Mr. Hiroyuki Inohara, who are shareholders, employees and/or ex-employees of AEON Co, were regarded as potentially having a material interest in the Master Services Agreement and accordingly abstained from voting on the relevant resolutions.

INTERNAL CONTROL

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

LETTER FROM THE BOARD

INFORMATION OF THE PARTIES

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

AEON Co is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. AEON Co'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. As at the Latest Practicable Date, AEON Co is the controlling shareholder of the Company, who beneficially owns approximately 60.59% of the issued share capital of the Company, and is a connected person of the Company under Chapter 14A of the Listing Rules.

The AGSCM Group is principally engaged in the business of international cargo transport services, including cargo booking, consignment, packaging; supervision of the freight transport distribution, transfer; application for inspection; charging service; international multimodal transport and other international freight forwarding business; acting as domestic cargo transport agents; and provision of consultancy services in the PRC and Japan.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, AGSCM Japan is a connected person of the Company by virtue of it being a subsidiary of AEON Co, the controlling shareholder of the Company.

The entering into of the Master Services Agreement in respect of the Services other than the use of Warehouse constitutes a continuing connected transaction for the Company. As the highest of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Caps is more than 5%, the transactions contemplated under the Master Services Agreement in respect of the Services other than the use of Warehouse constitute non-exempt continuing connected transactions for the Company and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An 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 Master Services Agreement, the transactions contemplated thereunder and the Caps 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 17 to 18 of this circular, which contains its recommendation to the Independent Shareholders and the letter from the Independent Financial Adviser set out on pages 19 to 29 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

EGM

The Company will convene an EGM to seek approval from the Independent Shareholders in respect of the Master Services Agreement. At the EGM, ordinary resolutions approving each of the Master Services Agreement and the Caps of the transactions contemplated thereunder shall be proposed and, if thought fit, approve by the Independent Shareholders.

In view of AEON Co's interests in the Master Services Agreement, AEON Co, which as at the Latest Practicable Date beneficially holds 155,760,000 shares in the Company, and its associate (namely, Aeon Credit Service (Asia) Company Limited, which is a subsidiary of AEON Co. and as at the Latest Practicable Date is a beneficial owner of 1,776,000 shares in the Company) are required to abstain and shall abstain from voting on the ordinary resolutions to be proposed at the EGM to approve the Master Services Agreement and the Caps of the underlying transactions contemplated thereunder. As such, AEON Co and Aeon Credit Service (Asia) Company Limited, which in aggregate beneficially own and control 157,536,000 shares in the Company, shall abstain from voting at the EGM under the Listing Rules.

Mr. Isei Nakagawa, Mr. Isao Sugawara, Mr. Takenori Nagashima, Mr. Shinya Hisanaga, Mr. Makoto Fukuda and Mr. Hiroyuki Inohara are shareholders, employees and/or ex-employees of AEON Co and are regarded as potentially having a material interest in the Master Services Agreement, they have accordingly abstained from voting on the relevant resolutions at the Board meeting convened to consider the Master Services Agreement. For the same reason, Mr. Isei Nakagawa, Mr. Isao Sugawara, Mr. Takenori Nagashima and Mr. Shinya Hisanaga will also abstain from voting on the relevant resolutions as 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 the Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong on Thursday, 24 November 2022 at 4:00 p.m. is set out on pages 36 to 38 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, 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or

LETTER FROM THE BOARD

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 Monday, 21 November 2022 to Thursday, 24 November 2022, 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 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:30 p.m. on Friday, 18 November 2022.

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)

3 November 2022

To: the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
MASTER SERVICES AGREEMENT**

We refer to the circular of the Company dated 3 November 2022 (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 Master Services 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 Master Services Agreement.

We wish to draw your attention to the letter from the Board set out on pages 5 to 16 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 19 to 29 of the Circular which contains its opinion in respect of transactions contemplated under the Master Services 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 Master Services 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 its shareholders as a whole. We also consider that the Master Services Agreement, the transactions contemplated thereunder and the Caps 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
Chow Chi Tong
Hideto Mizuno
Law Chi Yan Joyce
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 Master Services Agreement and the transactions contemplated thereunder and the 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

3 November 2022

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 THE MASTER SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Master Services Agreement and the transactions contemplated thereunder and the Caps, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 3 November 2022 (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 (i) AGSCM Japan is a connected person of the Company; and (ii) the highest of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Caps is more than 5%, the transactions contemplated under the Master Services Agreement in respect of the Services other than the use of Warehouse constitute non-exempt continuing connected transactions for the Company and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chow Chi Tong, Mr. Hideto Mizuno and Ms. Law Chi Yan Joyce, has been formed to advise the Independent Shareholders as to whether the terms of the Master Services Agreement and the transactions contemplated thereunder and the Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are not associated with the Company, AGSCM Japan or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Master Services Agreements and the transactions contemplated thereunder and the 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, AGSCM Japan 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) card acquiring merchant agreement, master services agreement and master trademark licence agreement as contained in the Company's circular dated 13 July 2021; and (ii) the royalty agreement as contained in the Company's circular dated 8 October 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, AGSCM Japan 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 Master Services Agreement and the transactions contemplated thereunder and the Caps.

In formulating our opinion, we have reviewed, amongst other things, the Master Services Agreement, the Previous Master Services Agreement, the annual report of the Company for the year ended 31 December 2021 (the "**Annual Report**"), the interim report of the Company for the six months ended 30 June 2022 (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 Master Services 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the Master Services Agreement and the transactions contemplated thereunder and the 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 AGSCM Group

The AGSCM Group is principally engaged in the business of international cargo transport services, including cargo booking, consignment, packaging; supervision of the freight transport distribution, transfer; application for inspection; charging service; international multimodal transport and other international freight forwarding business; acting as domestic cargo transport agents; and provision of consultancy services in the PRC and Japan.

3. Reasons for and benefits of entering into the Master Services Agreement

The AGSCM Group has been providing logistics services to the Group under the Previous Master Services Agreement and has become familiar with the Group's business operations. Since (i) the Previous Master Services Agreement and the Definitive Agreements entered into between members of the Group and members of the AGSCM Group and (ii) certain agreements entered into between members of the Group and an independent service provider shall expire on 30 November 2022, members of the Group have commenced their respective procurement processes as a continuous effort to explore the possibility of lowering the logistics costs by inviting service providers (including the AGSCM Group) to submit tenders for providing the Services. Among the tenders submitted, the certain members of the AGSCM Group offered lowest quotation(s) in the respective tenders. In addition, as stated in the letter from the Board, the Directors consider that the engagement of members of the AGSCM Group, which specialise in the provision of logistics related services and supply chain management, to provide the Services on a larger scale would allow the Group to further improve the efficiency of the Group's logistics system and enhance the Group's control of its operation costs.

Having considered that (i) the Group is principally engaged in the operation of general merchandise stores which procure merchandises from various places in Japan and the PRC and, in turn, require stable support from its logistics partners; and (ii) the Previous Master Services Agreement and the Definitive Agreements will expire on 30 November 2022 and the renewal is to ensure the Group's business operation continuity and aim to achieve cost saving which is important to the Group, we concur with the Directors' view that the entering into of the Master Services Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Principal terms of the Master Services Agreement

A summary of the key terms of the Master Services Agreement is set out as follows:

Date: 21 October 2022

Parties: The Company; and
AGSCM Japan

Term: Subject to the fulfilment of the Condition Precedents, the term of the Master Services Agreement shall be for a period of three years commencing on 1 December 2022 and expiring on 30 November 2025 (both dates inclusive) unless terminated earlier in accordance with the terms of the Master Services Agreement.

Scope of Services: The AGSCM Group shall provide the following services to the Group:

Logistics services

The AGSCM Group shall transport merchandise (from supplier) designated by the Group to locations designated by the Group and assist with related matters, including but not limited to the distribution, storage (temporarily in the warehouses in accordance with the Group's operational needs), handling and packaging of merchandise (in the quantity and assortment as designated by the Group), distribution, processing and the processing of logistics information.

Consultancy Services

The AGSCM Group shall first identify issues and/or problems with the existing logistics systems of members of the Group. The AGSCM Group shall then provide proposals for and assistance with, handling and resolving the identified issues and/or problems.

Termination: The Master Services Agreement may be terminated by not less than three months prior written notice by either party.

For details of the principal terms of the Master Services Agreement, please refer to section headed under "The Master Services Agreement" of the letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, as stated in the letter from the Board, where a member of the AGSCM Group is selected through relevant procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AGSCM Group may from time to time (and AGSCM Japan shall procure such member of the AGSCM Group to) enter into Definitive Agreement(s) setting out the detailed terms under which the relevant member of the AGSCM Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on comparable terms to which the Company and/or the relevant member of the Group procures the Services from independent third parties. We have reviewed the Master Services Agreement and the Previous Master Services Agreement and noted that the terms of both agreements are materially the same.

We have discussed with the management of the Group in relation to the selection of goods suppliers/service providers and are advised that, if the AGSCM Group is invited, the Group will also invite quotations or bids from at least two other independent third party suppliers/service providers. The management of the Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders before deciding the bidder to engage with and entering into a service contract with the bidder for the provision of goods or services.

According to the management of the Group, the Group conducted four tenders for procurement of the Services, primarily for the transportation of merchandise from Central Japan to Hong Kong for its Hong Kong operations and within Mainland China for its Mainland China operations, and the use of warehouses. Members of the AGSCM Group won all four bids and are expected to provide the Services and the use of warehouses to the members of the Group including the Company, GDA and ASC.

As advised by the management of the Group, (i) the Company is engaged in procurement of certain AEON Co group's private label items ("TOPVALU Product") and non-private label items from Central Japan; and (ii) both GDA and ASC source all products for their own stores in the PRC.

For the tender conducted by the Company, the Group selected the service provider by comparison of costs which is calculated based on the proposed fee rates quoted by the respective bidder and the Group's estimated total value of goods to be handled by the service provider for the next three years commencing from 1 December 2022. The Group invited three service providers (including the current service provider, being AGSCM Japan, and two other independent service providers) to provide their quotations in around mid-2022 and we noted that the estimated costs based on AGSCM Japan's quotation is the lowest amongst the three bidders. For remaining tenders conducted by GDA and ASC, the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group selected the service provider primarily after comparing the total fees to be borne by the Group which is calculated based on (i) their actual procurement amount in 2021 multiplied by the rates quoted by the bidders; and (ii) the rental spaces to be provided by the bidders multiplied by their quoted rates (if applicable). In each of the tenders, there were three qualified service providers (including AGSCM China and two other independent service providers) who provided their quotations in around mid-2022. Based on the Group's calculation which we have reviewed, the total fees calculated based on the quotes provided by the AGSCM Group is the lowest amongst the three bidders.

Among the bids submitted, the respective member of the AGSCM Group offered the quotation(s) resulting in the lowest costs to be borne by the Group based on either the actual procurement amounts in 2021 or expected procurement amounts for the next three years commencing from 1 December 2022 as stated in the Group's tender notice. As such, the Group intends to enter into four agreements with the AGSCM Group for the procurement of the Services, and in return the AGSCM Group will charge the Group service fees equivalent to (i) fixed percentages of merchandise costs of the goods for their transportation from Central Japan to Hong Kong based on the AGSCM Group's quotation (1.1% for cross-docking goods or 4% for goods that require temporary storage); (ii) the same rates quoted by the AGSCM Group in the relevant tender for each type of required services (e.g. warehouse processing and delivery) in the PRC; and (iii) the same rates quoted by the AGSCM Group in the relevant tender for required manpower and equipment and Warehouse rental and other miscellaneous charges (as the case may be) in the PRC. For details of the service fee chargeable by the AGSCM Group, please refer to the section headed "The Procurement Process" of the letter from the Board.

We have also reviewed all seven existing agreements entered into with current service providers (including members of the AGSCM Group and an independent third party) and all four draft agreements to be entered with members of the AGSCM Group relating to the Group's procurement of the Services and noted that (a) the pricing mechanism and scope of services of draft agreements to be entered with members of the AGSCM Group and those of the relevant existing agreements are similar (except for one of the agreements to be entered into with ASC) and the key terms (i.e. payment terms and termination notice period) of the draft agreements are no more favourable than those of the relevant existing agreements; and (b) the rates stated in the draft agreements are the same as those stated in their quotations in the tenders. As advised by the management of the Group, the required scope of work as proposed by ASC for its Dongguan operation when sending out the tender invitation has been extended to include inspection and goods return processing services and the draft agreement has reflected the same. In addition, for each of the two existing agreements entered into with members of the AGSCM Group, we have randomly selected and reviewed five sample invoices in 2021-2022 and related documents and noted that the rates charged by the AGSCM Group are identical to those of the same service/item as stated in the fee schedule in the relevant existing agreement. On these grounds and taking into account (i) the AGSCM Group was only be selected for the provision of the Services based on the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

tender results, where at least two other independent third party suppliers were invited to provide their quotations for comparison; and (ii) the quotation provided by the AGSCM Group for each tender was, amongst all the bids, the most favourable to the Group, we consider the terms of the transactions contemplated under the Master Services Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

5. The Caps

We have discussed with the management of the Group on the utilisation of caps for 2019-2022 and are advised that the service fees paid to the AGSCM Group were lower than expected when determining the caps back in late 2019, largely due to (i) the fact that it took longer time for the Group to build up relationships with different manufacturers and suppliers in Japan for the direct procurement of goods primarily for the Hong Kong operations after the adoption of the current TOPVALU Products procurement arrangement in January 2019; (ii) the poor performance of the Mainland China operations following the outbreak of COVID-19 for 2020 and its recovery being slower than expected due to intense competition from online stores; and (iii) the sales of some merchandise spurred by the pandemic (e.g. food-related products and cleaning and hygiene-related products) in 2019-2020 no longer sustainable in 2021 and onwards as the COVID-19 pandemic was gradually brought under control in Hong Kong.

As stated in section 4 above, members of the AGSCM Group won four bids for the provision of the Services. Based on the tender results, they will continue to be the providers in respect of the Services in two tenders and will replace the existing independent service provider in respect of the Services in the other two tenders. Set out below are the service fees paid to the independent service provider and members of the AGSCM Group in respect of the Services in 2020 and 2021 and seven months ended 31 July 2022 and the projected service fee payable in the next three years:

	2020	2021	2022 (Jan - Jul)	2022 (Dec)	2023	2024	2025 (Jan - Nov)
(RMB million)	Actual amount			Estimated amount			
Service fee							
– Paid/payable to the AGSCM Group	10.6	10.4	5.8	3.4	51.4	56.0	58.4
– Paid to independent service provider	28.1	29.3	19.3	NA	NA	NA	NA
Total	38.7	39.7	25.1	3.4	51.4	56.0	58.4
Buffer of 10%				0.3	5.1	5.6	5.8
Cap				3.7	56.5	61.6	64.2

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note:

1. The right-of-use assets in respect of the use of Warehouse are excluded from the calculation of above Caps
2. The annual caps for year ended 31 December 2020 and 2021 and the 11 months ending 30 November 2022 are RMB19.65 million, RMB19.65 million and RMB18.01 million, respectively.

We have discussed with the management of the Group and have reviewed their estimated service fee payable to the AGSCM Group for determining the Caps covering 1 December 2022 to 30 November 2025, the basis of which is summarised as follows:

For the Company

As mentioned in section 4 above, the Company handles the procurement of certain TOPVALU Products and non-private label items from Central Japan and settles the service fees in Japanese Yen. Based on the information provided by the management of the Group, the new service fee rates will be about the same as those under the existing arrangement. Based on the information on Bloomberg, the Japanese Yen has been volatile and has declined significantly in the past two years (i.e. depreciated around 23% against RMB, which is the currency for the purpose of the annual caps). Based on the information provided by the Group, we noted that the related service fee payable to the AGSCM Group for the first seven months of 2022 grew by 12.8% year-on-year. Therefore, the management of the Group has (i) built in a 15% year-on-year increment on the related merchandise cost of the Group for the period covering December 2022 to November 2024; and (ii) applied the new rates quoted by the AGSCM Group. Having considered the increase in service fee paid to the AGSCM Group in the first seven months of 2022 and the possible rebound of Japanese Yen in the future, we are of the view that the 15% annual increment assumption is justifiable.

For GDA

We have discussed with the management of the Group and are advised that GDA will continue to expand its businesses in the future by opening new stores while closing the non-performed ones or those upon expiry of leases but they still expect a net increase in number of stores going forward. GDA plans to have a net increase in (i) 1 general merchandise store (“GMS”) in 2024; (ii) 3, 1 and 1 supermarkets in 2023, 2024 and 2025, respectively; and (iii) 4, 6 and 7 small-scale supermarkets in 2023, 2024 and 2025, respectively. As advised by the management of the Group, the business scale of 1 GMS is roughly equivalent to 1.67 supermarkets or 5 small-scale supermarkets. Based on this ratio, GDA’s business scale will increase by 7.4%, 10.3% and 8.3%, year-on-year, in 2023, 2024 and 2025, respectively. We have reviewed the projection prepared and information provided by the management of the Group and noted that (i) the new service fee rates will decrease by around 3% as compared to those under the existing arrangement; and (ii) the projected service fee payable for

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2023, 2024 and 2025 will increase by 25.7% for 2023 (as compared to the annualised figure of the actual amount in the first seven months of 2022), 11.7% for 2024 and 17.7% for 2025 (annualised). The significant increase in the projected service fee for 2023 is mainly due to (i) the first full year operation of 2 new supermarkets being open and the closure of 1 non-performed small-scale supermarket, both in 2022; and (ii) the expected opening of 3 new supermarkets and 1 new small-scale supermarket in the first half of 2023. The difference between the growth rates of GDA's business scale and the projected service fee payable in 2024-2025 is mainly due to (i) most of the new stores being open in the third and fourth quarter of the year; and (ii) the expected ramping up of such new stores in the following year after they are open with at least 20% increase in the procurement amounts in such following year is built in for every such new store. Based on the above, we are of the view that such projection is reasonable.

For ASC

We have reviewed ASC's service fee projections as provided by the management of the Group and noted that the new service fee rates will increase by around 19% as compared to those under the existing arrangement. The increase in service fee rates is mainly due to the extended scope of work for the service provider with the inclusion of inspection and goods return processing services. Based on the projection, it is estimated that the related service fee payable will increase by 7.6% for 2023 (as compared to the annualised figure of the actual amount in the first seven months of 2022) and remain at the same level for 2024 and 2025. We have discussed with the management of the Group and are advised that ASC has been streamlining its businesses due to unsatisfactory performance as evidenced by the closing of one store in May 2022. Hence, despite the significant increase in new service fee rates, less procurement demand of ASC results in only 7.6% increase in the projected service fees payable in 2023. Based on the above, we are of the view that the projection basis is reasonable.

A buffer of 10% is applied to the estimated service fee payable to the AGSCM Group for each of the period/years ending 31 December 2022, 2023, 2024 and 30 November 2025 to allow flexibility to the Group's business operations as well as to accommodate unexpected increase in merchandise cost and/or volume of goods to be handled by the AGSCM Group resulting from, among other things, additional number of stores and/or exchange rate fluctuations.

Given the Caps are determined based on (i) historical transaction amount; (ii) the potential increase in both the scope and volume of the Services; (iii) the new rates as quoted by the AGSCM Group; (iv) recent market conditions and sales performance of members of the Group; (v) the Group's sales projection and business expansion plans; and (vi) a buffer of 10%, we are of the view that the basis in arriving at the Caps are reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Master Services 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 Master Services Agreement to ensure they are conducted within the frameworks and the Caps. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under the Master Services Agreement to ensure the transactions are conducted within the framework of the Master Services Agreement and monitor the utilisation of the Caps to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

In addition, the independent non-executive Directors will, pursuant to Rule 14A.55 of the Listing Rules, review, among other things, whether the transactions under the Master Services 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 Master Services Agreement are conducted in accordance with the terms therein. Furthermore, we noted from the Annual Report that the transactions under the Previous Master Services Agreement were carried out within the related annual cap for 2021.

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 Master Services Agreement in order to protect the interests of the Company and the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the transactions contemplated under the Master Services Agreement are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Master Services Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable and the bases in arriving at the 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 resolutions to be proposed at the EGM in relation to approval of the Master Services Agreement and the transactions contemplated thereunder and the Caps.

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

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

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	Capacity	Number of shares interested (Long position)	Approximate percentage of interests %
NAKAGAWA Isei	beneficial owner	15,000	0.00577
SUGAWARA Isao	beneficial owner	10,000	0.00385
NAGASHIMA Takenori	beneficial owner	2,000	0.00077
HISANAGA Shinya	beneficial owner	30,000	0.01154

(b) AEON Co, the Company's ultimate holding company as an associated company

Name of Directors	Capacity	Number of shares interested (Long position) (Note)	Approximate percentage of interests %
NAKAGAWA Isei	beneficial owner	2,400	0.00028
HISANAGA Shinya	beneficial owner	2,030	0.00023
FUKUDA Makoto	beneficial owner	1,000	0.00011

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.

Name of substantial shareholders	Capacity	Number of ordinary shares held (Long position)	Approximate percentage of the total number of issued shares %
AEON Co	beneficial owner	157,536,000 (Note)	60.59

Note: These shares are held as to 155,760,000 shares by AEON Co and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS"). ACS is owned by AEON Co as to 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.

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
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 2021, being the date to which the latest published audited financial statements of the Company were made up.

7. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim results announcement of the Company dated 26 August 2022, as at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. 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.

9. 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.

10. 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

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) was not beneficially interested in the share capital of any member of the Group;
- (c) 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
- (d) 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 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

11. 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 Tricor Secretaries Limited at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (4) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).
- (5) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aeonstores.com.hk) from the date of this circular up to and including the date of the EGM:

- (1) the articles of association of the Company;
- (2) the Master Services Agreement;
- (3) the Previous Master Services Agreement;
- (4) the annual report of the Company for the year ended 31 December 2019;
- (5) the annual report of the Company for the year ended 31 December 2020;
- (6) the annual report of the Company for the year ended 31 December 2021;
- (7) the interim report of the Company for the six months ended 30 June 2022;
- (8) the letter from the Board, the text of which is set out on pages 5 to 16 of this circular;
- (9) the letter from the Independent Board Committee, the text of which is set out on pages 17 to 18 of this circular;

- (10) the letter from the Independent Financial Adviser, the text of which is set out on pages 19 to 29 of this circular;
- (11) the written consent referred to in the section headed “10. 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 the Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong on Thursday, 24 November 2022 at 4:00 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 3 November 2022.

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the transactions contemplated under the Master Services 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, the transactions contemplated thereunder and the relevant Caps be and are hereby approved, confirmed and ratified; and
- (b) all acts done and things executed and all such documents or deeds entered into in connection with the implementation of the Master Services Agreement and the transactions contemplated thereunder and the relevant Caps be and are hereby ratified, confirmed and approved, and any one Director be and is hereby authorised to do all such acts and things and execute all such documents or deeds and to take all steps as the Director may in his/her discretion consider necessary, desirable or expedient in connection with the implementation of the Master Services Agreement or the transactions contemplated thereunder and/or

NOTICE OF EXTRAORDINARY GENERAL MEETING

the Caps 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, 3 November 2022

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 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof.
3. The Register of Members of the Company will be closed from Monday, 21 November 2022 to Thursday, 24 November 2022, 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 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:30 p.m. on Friday, 18 November 2022.
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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

7. If Typhoon Signal No. 8 or above is hoisted or remains hoisted at 2:00 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 24 November 2022 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.

Special note

Due to the outbreak of the COVID-19 pandemic (the “**Pandemic**”), the Company will implement the following precautionary measures against the Pandemic at the venue of the EGM (the “**Venue**”) to protect the Shareholders and attendees from the risk of infection:

- i. compulsory body temperature check will be conducted for every attendee (including every Shareholder or his/her proxy) at the entrance of the Venue. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the Venue or allowed to attend the EGM;
- ii. every attending Shareholder or proxy is required to scan the “Leave Home Safe” venue QR code, comply with the requirements of the “Vaccine Pass Direction” under the Prevention and Control of Disease (Vaccine Pass) Regulation (Cap. 599L of the Laws of Hong Kong);
- iii. every attendee (including every Shareholder or his/her proxy) is required to wear a surgical facial mask throughout the EGM (no surgical facial mask will be provided at the Venue). Any person who refuses to follow the aforesaid will not be admitted to the Venue or allowed to attend the EGM;
- iv. maintaining proper social distance between seats; and
- v. every attendee (including every Shareholder or his/her proxy) who has travelled from jurisdictions, which according to the Department of Health of Hong Kong would render such person subject to quarantine order prescribed by the Hong Kong Government will not be admitted to the Venue or allowed to attend the EGM.

To the extent permitted by the law, any person who does not comply with the precautionary measures or any legal requirements imposed by the Hong Kong Government for social distancing or prevention of the Pandemic may be denied entry into the EGM venue.
