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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
RENEWAL OF IT MASTER 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 15 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 16 to 17 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 18 to 30 of this circular.

A notice convening the extraordinary general meeting of the Company to be held as a hybrid meeting, physically at the principal meeting place of Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong with an option for online virtual attendance and participation via an e-meeting system (<https://spot-emeeting.tricor.hk/#/984>) on 25 August 2023 at 2:30 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 or online, 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 in person or online (if applicable) at the extraordinary general meeting or any adjourned meeting if you so wish.

3 August 2023

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
INTRODUCTION	5
THE RENEWAL MASTER AGREEMENT	6
ANNUAL CAPS	10
REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWAL MASTER AGREEMENT	11
INTERNAL CONTROL	11
INFORMATION OF THE PARTIES	13
IMPLICATIONS UNDER THE LISTING RULES	13
INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER	13
EGM	14
CLOSURE OF REGISTER OF MEMBERS	15
FURTHER INFORMATION	15
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	16
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	18
APPENDIX – GENERAL INFORMATION	31
NOTICE OF EXTRAORDINARY GENERAL MEETING	36

DEFINITIONS

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

“Actual Costs”	all costs incurred in relation to the provision of Services which are paid or payable by ADMC to Independent Third Parties of AEON Group, including direct costs such as ADMC’s personnel expenses, external vendors’ costs, operational costs, license fees, costs in relation to equipment and/or software and other indirect or common costs allocated on an equitable basis to the Users of the relevant Services
“ADMC”	永旺數字科技有限公司 (AEON Digital Management Centre*) (formerly known as AEON 信息系統集成(杭州)有限公司 (AEON Integrated Business Service China Co., Limited*)), a company registered in the PRC and a subsidiary of AEON Co
“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
“AEON Group”	AEON Co and its subsidiaries and, unless the context require otherwise, excluding members of the Group
“Board”	the board of Directors
“Company”	AEON Stores (Hong Kong) Co., Limited (永旺(香港)百貨有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 984)
“Conditions Precedent”	approval of the Renewal Master Agreement by the Company’s Independent Shareholders and compliance with all applicable requirements under the Listing Rules by the parties to the Renewal Master Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of Shareholders (and any adjournment thereof) to be held to consider the resolution relating to the Renewal Master Agreement and the transactions contemplated thereunder and any adjournment of such EGM, which is scheduled to be held as a hybrid meeting, physically at the principal meeting place of Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong with an option for online virtual attendance and participation via an e-meeting system (https://spot-meeting.tricor.hk/#/984) on 25 August 2023 at 2:30 p.m.
“EGM Notice”	the notice included in this circular in respect of the EGM to consider and, if though fit, approve the Renewal Master Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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. Shum Wing Ting
“Independent Financial Adviser”	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 Renewal Master Agreement
“Independent Shareholders”	Shareholders other than those who have a material interest in the relevant Renewal Master Agreement

DEFINITIONS

“Independent Third Party(ies)”	a third party which, together with its beneficial owner(s) (if any) and to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is independent of the Company (or, if the context requires, AEON Group) and its connected persons in accordance with the Listing Rules
“IT Master Agreement”	the master agreement entered into between the Company and ADMC on 30 August 2017 which was renewed by a master agreement dated 31 July 2020
“Latest Practicable Date”	28 July 2023, 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
“Member(s)”	the Company and any of its subsidiaries, each a “Member”
“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
“Renewal Master Agreement”	the master agreement dated 25 July 2023 conditionally entered into between the Company and ADMC renewing the IT Master Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Service Contract”	separate agreement(s) to be entered into between any Member and ADMC in respect of the provision of such Services as may be required by any Member from time to time

DEFINITIONS

“Services”	services to be provided by ADMC under the Renewal Master Agreement, including but not limited to consultancy, design, development, enhancement, planning, project management, vendor selection and/or management, operation, training, management and maintenance services relating to the Group’s information technology systems, infrastructure, network, platform, equipment, applications and software and such other services as may be agreed between the members of the Group and ADMC from time to time
“Shareholder(s)”	holders of the shares of the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“User(s) ”	parties, including the Members, who are using services provided by ADMC which are the same as or similar to the Services
“%”	per cent

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

LETTER FROM THE BOARD



AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

Executive Directors:

Mr. Takenori NAGASHIMA *(Managing Director)*

Mr. Shinya HISANAGA

Non-executive Directors:

Mr. Isei NAKAGAWA *(Chairman)*

Mr. Makoto FUKUDA

Mr. Toshiya GOTO

Mr. Hiroyuki INOHARA

Independent Non-executive Directors:

Mr. CHOW Chi Tong

Mr. Hideto MIZUNO

Ms. SHUM Wing Ting

Registered office:

G-4 Floor

Kornhill Plaza (South)

2 Kornhill Road

Hong Kong

3 August 2023

To the Shareholders

Dear Sir/Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 25 July 2023 in relation to, among other things, the Renewal Master Agreement that the Company has conditionally entered into with ADMC to renew the IT Master Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further information on the details of the Renewal Master 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 RENEWAL MASTER AGREEMENT

Reference is made to the announcements of the Company dated 30 August 2017, 31 July 2020 and 4 December 2020, respectively, in relation to the IT Master Agreement.

The Board is pleased to announce that on 25 July 2023, the Company has conditionally entered into the Renewal Master Agreement with ADMC to renew the master agreement which will expire on 29 August 2023.

Principal terms

The principal terms of the Master Agreement are as follows:

Date

25 July 2023

Parties

The Company and ADMC

Nature of transactions

Members of the Group may from time to time engage ADMC to provide the Services. The Services may include, but are not limited, consultancy, design, development, enhancement, planning, project management, vendor selection and/or management, operation, training, management and maintenance services relating to the Group's information technology systems, infrastructure, network, platform, equipment, applications and software and such other services as may be agreed between the members of the Group and ADMC from time to time.

Where ADMC is willing to provide and the Member(s) is/are willing to engage ADMC for the relevant Services, the relevant parties shall enter into a Service Contract setting out the detailed terms (e.g. payment terms) under which ADMC shall provide the relevant Services to the relevant Member(s). Such terms shall be on normal commercial terms, on an arm's length basis and on terms which are no less favourable than, where applicable, (i) services procured by the Members from Independent Third Parties, and (ii) services provided by ADMC to other Users. The Service Contracts shall also adopt the terms and conditions set out in the Renewal Master Agreement and the standard terms and conditions of the relevant Member prevailing at the time of execution of such Service Contract.

LETTER FROM THE BOARD

Procurement Process

Both parties acknowledge that the Members may from time to time engage service provider (s) for the Services. In respect of the Services provided by ADMC under the IT Master Agreement, the Group has adopted the selection process in the form of direct negotiation with ADMC as the selected service provider, in which case the Services shall be charged on a cost-plus basis (“**Cost-plus Basis**”). To align the procurement process with that of the Group’s other continuing connected transactions which involve the engagement of service providers, both parties have agreed to include, in the Renewal Master Agreement, an additional selection process in the form of tender exercises conducted on an arm’s length basis in which ADMC and at least two other Independent Third Party service providers are invited to submit their respective proposals on the services required and the fee quotation (“**Tendering Basis**”).

Whether the Cost-plus Basis or the Tendering Basis will apply will depend on a number of factors which include:

- a) nature and uniqueness of the Services required;
- b) the costs and time required to develop or deploy the Services;
- c) whether the business processes and the user requirements which the Services relate to are commonly applicable to other members of the AEON Group;
- d) whether it may create synergy effect and/or save costs by deploying ADMC’s Services together with other members of the AEON Group (as the costs will be apportioned among Users); and
- e) specific factors applicable to the particular Services required.

Generally speaking, where the relevant Service involves the enhancement of only a few functionalities in an existing IT system developed and maintained by ADMC, the Group will adopt the Cost-plus Basis and negotiate directly ADMC. Historically, the Group has attempted to seek price quotations from Independent Third Party service providers for such types of Services. The Independent Third Party service providers either (i) failed to provide quotations, (ii) were unable to commit to the deliverables within the required timeline, or (iii) provided quotations for building a new IT system. Having considered (a) the nature of the Services required, and (b) the resources and time spent by the Group to obtain quotations which were not comparable (given price comparisons produced anomalous results due to costs arising from deploying comparable Services by Independent Third Parties being substantively higher), the Group would adopt the Cost-plus Basis and negotiate directly with ADMC, which would result in efficiency and cost savings as a whole.

LETTER FROM THE BOARD

In addition, where the Services rendered by ADMC involve developing systems which can be used by other members of the AEON Group, the engagement of ADMC, and subsequent sharing and apportionment of such costs with other members of the AEON Group may achieve synergy effect and cost savings for the Group, and hence the Group will adopt the Cost-plus Basis and negotiate directly with ADMC.

On the other hand, where a particular Service is related to IT systems or products developed by well-established or mainstream brands, for example, the acquisition of user licences, the Group would generally adopt the Tendering Basis, which would allow the Group the opportunity to obtain Services in the market on terms that are most favourable to the Group.

Pricing Policy

The pricing policy applicable to the Cost-plus Basis or the Tendering Basis are as follows.

Cost-plus Basis

This basis applies when ADMC is directly engaged to provide the relevant Services. The fees for the provision of Services by ADMC shall be charged on a cost-plus basis, representing the Actual Costs plus a mark-up rate of not more than 10%. Notwithstanding the foregoing, a mark-up rate of not more than 5% will apply in respect of Actual Costs which consist solely of personnel expenses of ADMC.

In respect of a Service Contract, where the Actual Costs are incurred by ADMC solely and exclusively for a Member, such Actual Costs shall be applied directly for calculation of the fees payable. If this is not the case, the Actual Costs shall be apportioned and allocated by ADMC among all Users that derive benefit from such Actual Costs, in accordance with the following principles:

- i) where all Users are using the full functionality of Services derived from certain Actual Costs, such Actual Costs shall be apportioned among the Users in equal shares;
- ii) where all Users are using the functionality derived from certain Actual Costs at varying usage level, such Actual Costs shall be apportioned among the Users with reference to the actual usage of each User;
- iii) where the Actual Costs relate to the number of hardware, licenses and/or system login users, such Actual Costs shall be apportioned among the Users in accordance with their respective number of hardware, licenses and/or system login users; and
- iv) where the Actual Cost relate to usage and maintenance, such Actual Costs shall be apportioned with reference to the level of usage (if readily available) or, as may be appropriate in the circumstances, to the number of transactions or sales turnover, or the number of licenses, machines and/or system login users incidental to and/or arising out of such Actual Costs.

LETTER FROM THE BOARD

The prices offered by ADMC shall be no less favourable than, where applicable, (i) prices available in the market for the same or similar services and (ii) the prices offered by ADMC to its other Users.

Tendering Basis

This basis applies when ADMC is invited to join the selection process for service providers for the relevant Services, which will be by way of a tender exercise. In the process, ADMC is invited together with at least two other Independent Third Party service providers to submit their respective service and fee proposals. The Member(s) will evaluate the proposals according to a pre-determined assessment criteria, which may include factors such as the service providers' background and reputation, price, scope and quality of services offered and any existing business relationship with the Group, and then award the contract to the successful bidder of the process. If ADMC is selected as the successful bidder during the tendering process, the terms (taken as a whole, including but not limited to the price) offered by ADMC shall be no less favourable than the terms offered by the other Independent Third Party service providers.

Payment Term

Where appropriate, ADMC may charge the price by lump sum payment, by instalments, by monthly or annually fees or in such other manner as the parties may mutually agree provided always that the net amount or the annual aggregated amount (as the case may be) payable by members of the Group shall not in any event be more than the due share payable by members of the Group calculated in accordance with the pricing policy mentioned above.

Rebates

ADMC may, taking into account factors such as volume of usage, promotions from manufacturers, its budget, results and profits, grant rebates to the Member(s) (as agreed mutually between the relevant parties) from time to time.

Further assistance

The Members shall have the right to audit, cross-check and verify the books, records, financial practice, business and operational flow and practice, electronic/computer system(s) of ADMC, including all information and documents relating to the direct and indirect costs incurred by ADMC in support of the billing of the Services, and to audit and monitor the performance by ADMC of its obligations under the Service Contracts.

Term

Subject to fulfilment of the Conditions Precedent, the Renewal Master Agreement has a term of three (3) years commencing on 30 August 2023 and ending on 29 August 2026 (both dates inclusive). If the Conditions Precedent have not been fulfilled as certified by the respective

LETTER FROM THE BOARD

party, the Renewal Master Agreement shall immediately terminate and the parties shall have no claims thereunder save as to any antecedent breach. The parties to the Renewal Master Agreement may, subject to compliance with the Listing Rules, renew the Renewal Master Agreement.

Termination

The Renewal Master Agreement may be terminated by three (3) months' prior written notice by either the Company or ADMC. On termination, each Service Contract then in force shall nevertheless continue in full force and effect for the remainder of the term of such Service Contract, unless terminated in accordance with the terms of such Service Contract.

ANNUAL CAPS

The revised annual caps (as set out in the announcement of the Company dated 4 December 2020) of the transactions between the Group and ADMC under the IT Master Agreement for the period between 30 August 2020 and 31 December 2020, each of the two years ended 31 December 2022 and the period between 1 January 2023 and 29 August 2023 were RMB7.3 million, RMB21.6 million, RMB21.6 million and RMB14.3 million, respectively. On the other hand, the historical transaction amounts between the Group and ADMC under the IT Master Agreement for the period between 30 August 2020 and 31 December 2020, each of the two years ended 31 December 2022 and the five months ended 31 May 2023 were approximately RMB5.8 million, RMB16.1 million, RMB18.3 million and RMB7.4 million, respectively. The Company does not expect that the transaction amount as at the date of the EGM would exceed the annual cap for the eight months ending 29 August 2023.

The Directors estimate the annual caps (the “**Annual Caps**”) for each of the following periods shall be:

Financial Year/Period	Annual caps
30 August to 31 December 2023	RMB12.9 million
1 January to 31 December 2024	RMB38.6 million
1 January to 31 December 2025	RMB41.0 million
1 January to 29 August 2026	RMB28.1 million

In arriving at the Annual Caps, the Directors took into account various factors including (i) the historical transaction amounts between the Group and ADMC, (ii) the expected increase in both scope and volume of expected future IT related system development and services required by the Group (based in particular on the following business plans: (a) the rolling out of certain middle platform related IT projects by the Company in relation to its Hong Kong operations, which is expected to involve investments of RMB4.6 million, RMB13.2 million, RMB11.3 million and RMB6.7 million for the four months ending 31 December 2023, the years ending 31 December 2024 and 2025, and eight months ending 29 August 2026, respectively, with such

LETTER FROM THE BOARD

amount payable to reach its peak in 2024 and gradually decline afterwards; and (b) the plan to build up and operate a new enterprise resources planning system for the Group's operations in the PRC from the third quarter of 2024 onwards (with an expected cost of RMB4.3 million per annum) and in Hong Kong from the third quarter of 2025 onwards (with an expected cost of RMB2.6 million per annum), (iii) potential replacement of independent service provider(s) for the Services with ADMC, (iv) estimated apportionment and allocation of costs between members of the AEON Group and the Group, and (v) inflation rate of 2% per annum.

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

REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWAL MASTER AGREEMENT

The Directors consider that ADMC has been providing the Services under the IT Master Agreement and is therefore familiar with the relevant business operations. As such the entering into of the Renewal Master Agreement and the engagement of ADMC to provide the Services to the Group, subject to ADMC being selected during the procurement process (where applicable), will enhance the Group's information technology system as a whole, resulting in increased operational efficiencies and reduced costs incurred by the Group. It will also enhance the Group's services to customers and improve customers' shopping experiences with the Group.

The terms of the Renewal Master Agreement have been reached after arm's length negotiations between the Company and ADMC. The Directors (including the independent non-executive Directors) are of the view that (i) the entering into of the Renewal Master Agreement is in the ordinary and usual course of business of the Group; (ii) the terms of the Renewal Master Agreement are on normal commercial terms; and (iii) the terms of the Renewal Master Agreement and the transactions contemplated thereunder, together with the Annual Caps, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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

INTERNAL CONTROL

In order to ensure compliance with the procurement process and the pricing policy requirements, the Company has set up mechanism for each member of the Group to submit any proposed transactions with ADMC to the Company's Connected Transaction Panel for review and comment and then to obtain approval from the Company's management prior to entering into any such proposed transactions with ADMC.

LETTER FROM THE BOARD

As part of the Group's internal control systems, the Company's Connected Party Transaction Panel, comprising the 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 Renewal Master Agreement.

The Connected Party Transaction Panel generally holds meetings bi-weekly to review and monitor all continuing connected transactions of the Group (including the transactions contemplated under the Renewal Master Agreement). On the other hand, the finance departments of the relevant members of the Group will conduct the initial level of control over the transactions and the transaction amounts under the Renewal Master Agreement to ensure they are conducted within the frameworks and the Annual Caps of the Renewal Master Agreement. Where necessary, the Connected Party Transaction Panel will conduct bi-annual review of the transactions under the Renewal Master Agreement to ensure the transactions are conducted within the framework of the Renewal Master Agreement and monitor the utilization of the Annual Caps to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

With respect to transactions entered into on a Cost-plus Basis, the Company will adopt the following measures to ensure that prices offered by ADMC are no less favourable than, where applicable, (i) prices available in the market for the same or similar services and (ii) the prices offered by ADMC to its other Users:

- a) in relation to (i), the Company shall keep abreast of market prices through regular market enquiries and conduct an analysis and comparison of the price charged by ADMC, taking into account factors such as the nature and uniqueness of the Services offered. The Company may also request ADMC to provide the cost breakdown for the finance department's evaluation of the reasonableness of the price charged. Furthermore, prior to entering into any transactions on a Cost-plus Basis with ADMC, the Company's Connected Transaction Panel shall review the terms of the relevant Service Contract and the price comparison and analysis to ensure that the terms of the Service Contract, as a whole, are fair and reasonable and no less favourable than those offered by the Independent Third Party suppliers. The Managing Director's approval would also be required for any transactions entered into on a Cost-plus Basis with ADMC under the Renewal Master Agreement; and
- b) in relation to (ii), the Company shall request ADMC to provide other sample agreement(s) entered into between ADMC and other Users in relation to the provision of the same or similar Services for cost analysis and comparison.

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.

ADMC is an indirect wholly-owned subsidiary of AEON Co, and is principally engaged in the provision of technical support, procurement of hardware and software and the development of retail related software.

AEON Co is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. 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. 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.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, ADMC 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 Renewal Master Agreement and the transactions contemplated thereunder constitute a continuing connected transactions for the Company under the Listing Rules.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules for the Annual Caps exceeds 5%, the Renewal Master Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions of the Company and are subject to reporting, announcement, independent shareholders' approval and annual review 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 in connection with the Renewal Master Agreement and the transactions contemplated thereunder (including the Annual Caps).

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

Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on pages 16 to 17 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from the Independent Financial Adviser set out on pages 18 to 30 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

LETTER FROM THE BOARD

EGM

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

In view of AEON Co's interests in the Renewal Master Agreement, AEON Co, which as at the Latest Practicable Date beneficially held 155,760,000 shares in the Company (representing approximately 59.91% of the issued shares in the Company), and its associates (namely, Aeon Credit Services (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, representing approximately 0.68% of the issued shares in the Company) are required to abstain and shall abstain from voting on the ordinary resolution to be proposed at the EGM to approve the Renewal Master Agreement and the transactions contemplated thereunder (including the Annual Caps).

As such, AEON Co and AEON Credit Service (Asia) Company Limited, which (i) in aggregate beneficially own and control 157,536,000 shares in the Company (representing approximately 60.59% of the issued shares in the Company) and (ii) are entitled to exercise control over the voting rights in respect of their respective shares in the Company, shall abstain from voting at the EGM under the Listing Rules.

Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga, Mr. Makoto Fukuda, Mr. Toshiya Goto 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 Renewal Master Agreement. Accordingly, they have abstained from voting on the relevant resolutions at the Board meeting convened to consider the Renewal Master Agreement. For the same reason, Mr. Isei Nakagawa (who as at the Latest Practicable Date beneficially held 15,000 shares in the Company, representing approximately 0.00577% of the issued shares in the Company), Mr. Takenori Nagashima (who as at the Latest Practicable Date beneficially held 12,000 shares in the Company, representing approximately 0.00462% of the issued shares in the Company) and Mr. Shinya Hisanaga (who as at the Latest Practicable Date beneficially held 30,000 shares in the Company, representing approximately 0.01154% of the issued shares in the Company), will also abstain from voting on the relevant resolution as Shareholders at the EGM. Apart from the above persons, the Directors are not aware of any other Shareholders who are required to abstain from voting on the resolutions at the EGM.

A notice convening the EGM to be held as a hybrid meeting physically at the principal meeting place of Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong with an option for online virtual attendance and participation via an e-meeting system (<https://spot-meeting.tricor.hk/#/984>) on 25 August 2023 at 2:30 p.m. is set out on pages 36 to 38 of this circular.

LETTER FROM THE BOARD

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 or online, 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 any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude Shareholders from subsequently attending and voting in person or online (if applicable) at the meeting or any adjourned meeting if they so wish.

Shareholders will be able to attend the EGM, vote and submit questions online via the designated URL (<https://spot-emeeting.tricor.hk/#/984>) by using the personalised login credentials provided on the Notification Letter sent by the Company. Shareholders participating in the EGM virtually will also be counted towards the quorum. If you have any queries relating to the access of Tricor e-Meeting for participating in the EGM, please contact the Company's share registrar, Tricor Secretaries Limited, via their hotline at (852) 2975 0928 (from 9:00 a.m. to 5:00 p.m., Monday to Friday, excluding Hong Kong public holidays).

Non-registered holders, whose Shares are held in the Central Clearing and Settlement System (CCASS) through banks, brokers or custodians or HKSCC Nominees Limited (together, the "**Intermediaries**") may also be able to attend the EGM, vote and submit questions online. In this regard, they should consult directly with the Intermediaries for further arrangement, including obtaining the log-in credentials and online voting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 22 August 2023 to Friday, 25 August 2023, 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 Monday, 21 August 2023.

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 August 2023

To: the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
RENEWAL OF IT MASTER AGREEMENT**

We refer to the circular of the Company dated 3 August 2023 (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 Renewal Master 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 Renewal Master Agreement.

We wish to draw your attention to the letter from the Board set out on pages 5 to 15 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 18 to 30 of the Circular which contains its opinion in respect of transactions contemplated under the Renewal Master 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 Renewal Master 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. We also consider that the Renewal Master Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the relevant resolution set out in the notice of the EGM.

Yours faithfully,
Independent Board Committee of
AEON Stores (Hong Kong) Co., Limited
Mr. Chow Chi Tong
Mr. Hideto Mizuno
Ms. Shum Wing Ting
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Renewal Master Agreement, 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 August 2023

*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 RENEWAL OF IT MASTER AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the terms of the Renewal Master Agreement entered into between the Company and ADMC and the Annual Caps, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 3 August 2023 (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) ADMC is a connected person of the Company; and (ii) the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Annual Caps exceeds 5%, the Renewal Master Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions of the Company and are subject to reporting, announcement, Independent Shareholders' approval and annual review 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. Shum Wing Ting, has been formed to advise the Independent Shareholders in connection with the Renewal Master Agreement and the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

transactions contemplated thereunder (including the Annual Caps). We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, ADMC or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Renewal Master Agreements and the Annual Caps. Apart from the normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, ADMC 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 as contained in its circulars dated 8 October 2021 and 3 November 2022; and as announced on 17 April 2023. 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 Capital Limited on one hand and the Group, ADMC and their respective substantial shareholders and/or associates on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the transactions contemplated under the Renewal Master Agreement.

In formulating our opinion, we have reviewed, amongst other things, the Renewal Master Agreement, the IT Master Agreement, the annual report of the Company for the year ended 31 December 2022 (the "**Annual 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 Renewal Master 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 Renewal Master Agreement and the Annual Caps, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

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

2. Information on ADMC

ADMC is an indirect wholly-owned subsidiary of AEON Co, and is principally engaged in the provision of technical support, procurement of hardware and software and the development of retail related software.

AEON Co is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. 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. 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.

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

The Group is principally engaged in the operation of general merchandise stores (“GMS”) in Hong Kong and the PRC which requires information technology (IT) services from service providers for its daily operation. ADMC has been providing certain IT services to the Group under the IT Master Agreement and has become familiar with the Group's business operations. As advised by the management of the Group, they consider that the engagement of ADMC for the provision of Services will further enhance the Group's IT system which does not only help to increase operation efficiency and in turn achieve cost reduction but also improve customers' shopping experiences. Thus, as the IT Master Agreement will expire after 29 August 2023, the Group intends to continue the transactions with ADMC and entered into the Renewal Master Agreement on 25 July 2023 for a term of three years from 30 August 2023 to 29 August 2026 subject to Independent Shareholders' approval at the EGM.

We have discussed with the management of the Group and are advised that the Group established a customer relationship management (“CRM”) system which primarily focuses on membership data management. However, as its CRM system may no longer meet its business and operation needs under competitive operating environment, the Group proposed

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to carry out digital transformation by setting up a middle platform which links up membership data management, online supermarket business, settlement, pre-order of goods and clearance sales with an aim to increase its competitiveness and operation efficiency. According to the management of the Group, the Group first started the middle platform project in around mid-2019 for the PRC operations and began to build up and launch different middle platform related IT projects in the PRC since then. In respect of the Hong Kong operations, the Group began the middle platform project in 2022 and targets to build up and roll out different middle platform related IT projects in Hong Kong similar to those in the PRC in the next three years. Apart from further expanding the middle platform in Hong Kong, the Group intends to build up and operate a new enterprise resources planning (“ERP”) system for the PRC operations from 3Q2024 onwards and the Hong Kong operations from 3Q2025 onwards. Therefore, it is expected that the amounts of the Annual Caps will increase significantly as compared to previous years.

Having considered that (i) the Group is principally engaged in the operation of retail stores which require IT services for its daily operation; and (ii) the IT Master Agreement will expire after 29 August 2023 and the renewal is to ensure the Group’s smooth operation and aim to increase operational efficiencies and improve customers’ shopping experience on an ongoing basis, we concur with the management of the Group’s view that the entering into of the Renewal Master 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.

4. Principal terms of the Renewal Master Agreement

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

Date:	25 July 2023
Parties:	The Company; and ADMC
Term:	Subject to the fulfilment of the Conditions Precedent, the term of the Renewal Master Agreement shall be for a period of three years commencing on 30 August 2023 and ending on 29 August 2026 (both dates inclusive).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Scope of Services: Members of the Group may from time to time engage ADMC to provide the Services. The Services may include, but not limited to, consultancy, design, development, enhancement, planning, project management, vendor selection and/or management, operation, training, management and maintenance services relating to the Group's information technology systems, infrastructure, network, platform, equipment, applications and software and such other services as may be agreed between the members of the Group and ADMC from time to time.

Where ADMC is willing to provide and the Member(s) is/are willing to engage ADMC for the relevant Services, the relevant parties shall enter into a Service Contract setting out the detailed terms (e.g. payment terms) under which ADMC shall provide the relevant Services to the relevant Member(s). Such terms shall be on normal commercial terms, on an arm's length basis and on terms which are no less favourable than, where applicable, (i) services procured by the Members from Independent Third Parties, and (ii) services provided by ADMC to other Users. The Service Contracts shall also adopt the terms and conditions set out in the Renewal Master Agreement and the standard terms and conditions of the relevant Member prevailing at the time of execution of such Service Contract.

Pricing policy: For the provision of relevant Services, the Member(s) will either be charged under the Cost-plus Basis or the Tendering Basis which are set out as follows.

Cost-plus Basis

This basis applies when ADMC is directly engaged to provide the relevant Services. The service fee payable to ADMC under the Cost-plus Basis shall be the Actual Costs plus a mark-up rate of not more than 10% (or not more than 5% if the Actual Costs only consists of personnel expenses of ADMC) (the "**Agreed Markups**"). If the relevant Service is shared amongst the Users, the Actual Costs apportioned and allocated by ADMC among all Users that derive benefit from such Actual Costs (e.g. calculated based on the level of usage of the relevant Services by each User). The prices offered by ADMC shall be no less favourable than, where applicable, (i) prices available in the market for the same or similar services; and (ii) the prices offered by ADMC to its other Users.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Tendering Basis

This basis applies when ADMC is invited to participate in the service provider selection process, which will be by way of a tender exercise. When ADMC is invited to tender, at least two independent service providers will also be invited to submit their respective service and fee proposals. The Member(s) will then evaluate the proposals according to a pre-determined assessment criteria, which may include factors such as the service providers' background and reputation, price, scope and quality of services offered and any existing business relationship with the Group, and then award the contract to the successful bidder. If ADMC is selected as the successful bidder during the tendering process, the terms (taken as a whole, including but not limited to the price) offered by ADMC shall be no less favourable than the terms offered by the other Independent Third Party service providers.

Payment Term: Where appropriate, ADMC may charge the price by lump sum payment, by instalments, by monthly or annually fees or in such other manner as the parties may mutually agree provided that the net amount or the annual aggregated amount (as the case may be) payable by the Members shall not in any event be more than the due share payable by the Members calculated in accordance with the pricing policy mentioned above.

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

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

We have reviewed the IT Master Agreement and the Renewal Master Agreement and noted that the terms of both agreements are materially the same except for the inclusion of the Tendering Basis under the pricing policy in the Renewal Master Agreement. We have discussed with the management of the Group in this regard and are advised that the inclusion of such term is to align that of the Group's other continuing transactions involving engagement of service providers. On this basis, we concur with the view of the management of the Group that the pricing policy having extended to the Tendering Basis under the Renewal Master Agreement is reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the management of the Group as to the selection of the pricing basis and are advised that the Group will consider a number of factors, including but not limited to, the nature and uniqueness of the Services required, the costs and time required to develop or deploy the Services and specific factors applicable to the particular services required, before determining which pricing basis to be adopted for a particular Service. According to the management of the Group, the Group likely adopts the Cost-plus Basis for the Services required for enhancement of the existing systems that were developed and have been maintained by ADMC in the past as it would not be feasible or economical to engage another service providers which may need significantly longer time to complete the tasks or even rebuild new systems to replace the existing ones. In addition, the management of the Group is of the view that as the Services rendered by ADMC in developing systems which can be used by other members of the AEON Group, the sharing of such costs with other members of the AEON Group may achieve cost saving for the Group. For the projects and tasks other than the above, the Group will pursue tendering to choose the service providers that best fit its needs. As advised by the management of the Group, the Service that went through tendering in the past was related to IT systems developed by well-established or mainstream brands such as user licences.

As advised by the management of the Group, almost all of the projects undertaken over the last three years were enhancement of systems that were developed and had been maintained by ADMC and development of systems that were used by members of the AEON Group (including the Group) and therefore the Group adopted the Cost-plus Basis for such IT projects in accordance with the terms set out in the IT Master Agreement whereby such prices were no less favourable than (i) prices available in the market for the same or similar services and (ii) the prices offered by ADMC to its other users. Over the past three years, the Group conducted a price comparison once on the purchase of IT products. From the supporting documents as provided by the management of the Group, we noted that the Group conducted a price comparison exercise for certain Service undertaken in 2021-2022, where ADMC and two other independent service providers were invited to provide price quotations, and a markup of 10% was applied on the estimated costs for provision of such Service by ADMC to arrive at its quotation. Based on the Group's assessment result, ADMC offered the lowest price amongst all participants and was engaged by the Group. Furthermore, we noted that the value of contract for provision of such Service and the invoiced amount are the same as ADMC's quotation.

We have obtained and reviewed transaction documents (including service contract, cost calculation and invoices) of four out of eight IT services provided by ADMC in the past three years on a random selection basis and noted that markups of 5% or 10% were applied on the costs as the total amounts charged to the Group by ADMC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing whether the Agreed Markups are fair and reasonable, we have endeavoured to identify comparable transactions relating to IT services with cost-plus pricing basis in the past two and a half years (i.e. from 1 January 2021 to the Latest Practicable Date, the “**Review Period**”), where (i) search has been conducted on the HKEXnews website by keywords “I.T.”, “IT service”, “IT support”, “IT system”, “Information tech”, “Information system”, “Techn” and “System support”; (ii) the service provider or user/purchaser/customer is listed on the Stock Exchange; and (iii) such transactions with pricing terms are publicly disclosed by way of announcement during the Review Period (the “**Comparable Transactions**”). We consider that the length of the Review Period is a reasonable time span for our analysis which reflects the current practice in the market in respect of the provision of IT services. We are of the view that the Comparable Transactions are fair and representative as they satisfy our aforesaid selection criteria. Details of the Comparable Transactions, which are considered to be exhaustive samples based on the above selection criteria, are set out below:

Announcement date	Company (stock code)	Transaction description	Pricing terms
21 September 2022	Neusoft Education Technology Co. Limited (9616)	Provision of technicians to provide on-site project solutions on information technology and software development by the group to its connected person(s) (the “ Neusoft Transaction ”)	Cost of technician plus profit margin (10-15%)
30 May 2022	Anhui Conch Cement Company Limited (914)	Provision of (i) equipment and software design services; and (ii) system platform, ancillary hardware and internet resources and operation and maintenance services to the group by its connected person (the “ Conch Transaction ”)	Cost of software and hardware plus profit margin of not more than 10%
10 June 2021	Fineland Real Estate Services Group Limited (9978)	IT services to be provided by the group to its connected person(s) which primarily include: (i) sale and integration of software and related technological consultancy services; (ii) development and maintenance technological services in relation to, amongst others, software systems, websites and applications; and (iii) software development services in relation to the smart community solutions and internet of things. (the “ Fineland Transaction ”)	Service costs plus profit margin (generally not less than 25%)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above selection criteria, we have identified three Comparable Transactions. The Neusoft Transaction relating to the provision of labour is charged based on the cost of technician plus a margin of 10-15% as compared to a markup of not more than 5% for solely personnel expenses under the Renewal Master Agreement. The Conch Transaction relating to the provision of software and hardware services and the Fineland Transaction relating to the provision of comprehensive IT solutions are charged based on the service costs plus a margin of not more than 10% and not less than 25% as compared to a markup of not more than 10% under Renewal Master Agreement.

Having considered that (i) the pricing of the Renewal Master Agreement as regards the Cost-plus Basis are less than or in line with those of the Comparable Transactions; (ii) the measures adopted by the Company with respect to transactions on a Cost-plus Basis as part of its internal control, where their terms and relevant price comparison and analysis shall be reviewed by the Connected Transaction Panel and approved by the Managing Director and such terms shall not be less favourable than those offered by ADMC to other users (our discussion on the Company's internal control are set out in section 6 below); and (iii) the Tendering Basis, which is a fair process, where ADMC would only be selected if it offers the best terms as compared with at least two other independent service providers, we consider the pricing of the Renewal Master Agreement to be fair and reasonable.

5. The Annual Caps

Set out below are the historical amounts of transactions between the Group and ADMC under the IT Master Agreement for the period from 30 August 2020 to 31 December 2020, the years ended 31 December 2021 and 2022 and the period from 1 January 2023 to 31 May 2023 and the Group's projected service fee payable to ADMC for the three years ending 29 August 2026:

	2020 (30 Aug- 31 Dec)	2021 (1 Jan- 31 Dec)	2022 (1 Jan- 31 Dec)	2023 (1 Jan- 31 May)	2023 (30 Aug- 31 Dec)	2024 (1 Jan- 31 Dec)	2025 (1 Jan- 31 Dec)	2026 (1 Jan- 29 Aug)
	Actual amount <i>RMB million</i>				Estimated amount <i>RMB million</i>			
Service fee paid/payable by the Group in relation to:								
Middle platform related IT projects	4.7 ⁽¹⁾	15.7 ⁽¹⁾	12.5 ⁽¹⁾	5.7 ⁽¹⁾⁽²⁾	10.7	30.2	28.7	18.5
Other IT projects	1.1	0.4	5.8	1.7 ⁽²⁾	2.2	8.4	12.3	9.6
Total	5.8	16.1	18.3	7.4	12.9	38.6	41.0	28.1
Proposed Annual Caps					12.9	38.6	41.0	28.1

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The figures include the provision of Services by ADMC relating to the CRM System which is integrated with and forms part of the middle platform according to the management of the Group.
2. The figures include accrued amount for certain IT projects.
3. The annual caps for the period from 30 August 2020 to 31 December 2020, the years ended 31 December 2021 and 2022 and the period from 1 January 2023 to 29 August 2023 are RMB7.3 million, RMB21.6 million, RMB21.6 million and RMB14.3 million, respectively.

From the table above, it is noted that (i) the service fee paid for middle platform related IT projects increased by 11% in 2021 (as compared to annualised figure based on the four months ended 31 December 2020), declined by 20% in 2022 and increased by 9% in 2023 (annualised based on the five months ended 31 May 2023); and (ii) the service fee paid for other IT projects declined by 88% in 2021 (as compared to annualised figure based on the four months ended 31 December 2020), increased by 13.5 times in 2022 as compared to 2021 and declined by 30% in 2023 (annualised based on the five months ended 31 May 2023). We have discussed with the management of the Group in this regard and are advised that for middle platform related IT projects, (i) the actual service fee paid for the full year of 2020 was about the same as that for 2021 and the slight increase in 2021 as compared to the annualised figure of 2020 was mainly due to the timing of billings; (ii) the significant decrease in service fee paid in 2022 was mainly due to the temporary shut down of some of the Group's stores when pandemic prevention measures were imposed by local government, resulting in a reduction in overall customer flow and hence lower system usage; and (iii) the mild increase in 2023 was due to the gradual resumption of normal store operation. We are further advised that for other IT projects, the sharp decline in 2021 and sharp increase in 2022 were mainly due to delay in billings by ADMC from 2021 to 2022 as it took longer than expected for the Group to agree on the cost incurred by ADMC during the period. Based on the information provided by the Group, should the service fee paid in accordance with the IT services rendered by ADMC, the service fee paid by the Group should (i) decrease by 28% in 2021 due to completion of point of sales (POS) project by ADMC in 2020 and new POS project having undertaken by independent service provider in 2021; (ii) increase by 34% in 2022 due to the one-off IT expenses incurred for building up the multi-channel customer service systems; and (iii) decline by 12% in 2023 due to the absence of such one-off expenses in 2022.

We have also discussed with the management of the Group in relation to the proposed Annual Caps and are advised that the Group (i) intends to continue to engage ADMC as its service provider for 7 existing IT projects (2 of which are related to middle platform); (ii) may replace the independent service providers with ADMC for 5 existing IT projects (1 of which is related to middle platform); and (iii) may engage ADMC as its service provider for 4 new projects (2 of which are related to middle platform), all subject to the pricing policy in the Renewal Master Agreement. Among the 16 IT projects, 5 of which are related to middle platform and the remaining IT projects cover business and operational data record and processing systems, customer service systems, human resources systems and big data centers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, according to the management of the Group, they plan to further expand the middle platform for Hong Kong operations, which requires investments of RMB4.6 million, RMB13.2 million, RMB11.3 million and RMB6.7 million for the four months ending 31 December 2023, the years ending 31 December 2024 and 2025 and eight months ending 29 August 2026, respectively. Thus, the annualised figure of the expected service fee payable for middle platform related IT projects for the four months ending 31 December 2023 will be 1.3 times greater than the annualised figure of the actual and accrued amount in the five months ended 31 May 2023 and the service fee payable for middle platform related IT projects is expected to reach to its peak in 2024 and gradually decline afterwards. Furthermore, as advised by the management of the Group, the Group intends to build up and operate a new ERP system for the PRC operations from 3Q2024 onwards with an expected annual cost of RMB4.3 million and for the Hong Kong operations with an expected annual cost of RMB2.6 million from 3Q2025 onwards. Thus, it is expected that the service fee payable for other IT projects will increase by 27% for 2024 (as compared to the annualised figure based on the expected service fee payable amount for the four months ending 31 December 2023), 46% for 2025 and 17% for 2026 (annualised based on the eight months ending 29 August 2026). As for the remaining required IT projects, the Group expects and has assumed the related service fee payable to remain stable in next three years.

Furthermore, we have reviewed the Group's projection of the service fee payable to ADMC for determining the Annual Caps covering 30 August 2023 to 29 August 2026 and noted that the management of the Group adopted the Cost-plus Basis to estimate the cost for all required Services to accomplish its digital transformation and system enhancement in the future three years. The management of the Group first obtained all estimated costs for each IT project from ADMC which primarily includes annual operating costs and personnel expenses and then applied the Agreed Markups of not more than 5% or 10% (as the case may be). The total costs (including the Agreed Markups) will then be split amongst all members of the AEON Group that require such services generally based on parameters that are associated with the level of usage, such as sales turnover, business scale of the users, the number of hardware, licenses and/or system login users and the number of stores. We are advised by the management of the Group that as the business scale of 1 GMS is roughly equivalent to 2.5 supermarkets or 3.3 small scale supermarkets or 10 specialty stores for all members of the AEON Group in Hong Kong and the PRC, the costs split among members of the AEON Group based on number of stores and business scale of users will be adjusted based on this ratio.

In addition, it is noted that a 2% growth rate is applied to annual estimated cost to accommodate the possibility of rise in the same as a result of inflation by the Group after having referenced to the PRC's inflation rate of 2% in 2022 as quoted from the website of the National Bureau of Statistics of China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the Annual Caps are determined based on (i) the Cost-plus Basis which is consistent with the pricing policy of the Renewal Master Agreement; (ii) the estimated costs with the Agreed Markups are split amongst all members of the AEON Group that require such services based on objective parameters that are associated with the level of usage; (iii) the increase in estimated service fee payable for the next three years is principally based on the Group's business plan and/or timing in launching certain IT systems; and (iv) the estimated cost has been built in with an inflation rate of 2% per annum, we are of the view that the basis in arriving at the Annual Caps is reasonable so far as the Independent Shareholders are concerned.

6. Internal control

As stated in the letter from the Board, as part of the Group's internal control systems, the Company's Connected Party Transaction Panel, comprising the 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 Renewal Master 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 Renewal Master Agreement to ensure they are conducted within the frameworks of the Renewal Master Agreement and the Annual Caps. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under the Renewal Master Agreement to ensure the transactions are conducted within the framework of the Renewal Master Agreement and monitor the utilisation of the Annual Caps to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

With respect to transactions entered into on a Cost-plus Basis, the Company will adopt the following measures to ensure that prices offered by ADMC are no less favourable than, where applicable, (i) prices available in the market for the same or similar services and (ii) the prices offered by ADMC to its other Users:

- (a) in relation to (i), the Company shall keep abreast of market prices through regular market enquiries and conduct an analysis and comparison of the price charged by ADMC, taking into account factors such as the nature and uniqueness of the Services offered. The Company may also request ADMC to provide the cost breakdown for the finance department's evaluation of the reasonableness of the price charged. Furthermore, prior to entering into any transactions on a Cost-plus Basis with ADMC, the Company's Connected Transaction Panel shall review the terms of the relevant Service Contract and the price comparison and analysis to ensure that the terms of the Service Contract, as a whole, are fair and reasonable and no less favourable than those offered by

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Independent Third Party suppliers. The Managing Director's approval would also be required for any transactions entered into on a Cost-plus Basis with ADMC under the Renewal Master Agreement; and

- (b) in relation to (ii), the Company shall request ADMC to provide other sample agreement(s) entered into between ADMC and other Users in relation to the provision of the same or similar Services for cost analysis and comparison.

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 Renewal Master 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 Renewal Master Agreement are conducted in accordance with the terms therein. Moreover, we noted from the Annual Report that the transactions under the IT Master Agreement were carried out within their respective applicable annual cap for 2021 and 2022.

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

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Renewal Master Agreement and transactions contemplated thereunder 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 Renewal Master Agreement are on normal commercial terms and fair and reasonable and the bases in arriving at the Annual Caps are reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM in relation to approval of the Renewal Master Agreement and the Annual Caps.

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

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

1. RESPONSIBILITY STATEMENT

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

2. INTEREST IN SECURITIES

(A) Directors' and chief executive's interests

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

(a) *The Company*

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
NAKAGAWA Isei	15,000	0.00577
NAGASHIMA Takenori	12,000	0.00462
HISANAGA Shinya	30,000	0.01154

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

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
NAKAGAWA Isei	2,400	0.00028
HISANAGA Shinya	2,030	0.00023
MAKOTO Fukuda	1,000	0.00011
TOSHIYA Goto	6,300	0.00072

Notes: The shareholding information above has been 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	Long positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co	157,536,000 (<i>Note</i>)	60.59

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

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 expiring or 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 2022, 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

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 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. MATERIAL CONTRACTS

The Group did not enter into any contract which was or might be material other than those entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries within the two years immediately preceding and including the Latest Practicable Date.

10. LITIGATION

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

11. EXPERTS AND CONSENTS

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

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

As at the Latest Practicable Date, the above expert:

- (a) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name, in the form and context in which they appear;
- (b) did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

- (c) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, 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 head office and principal place of business of the Company is at Units 07-11, 26/F, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong.
- (3) The share registrar of the Company is Tricor Secretaries Limited at 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (4) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.

13. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Renewal Master Agreement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aeonstores.com.hk) for a period of 14 days from the date of this Circular.

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 as a hybrid meeting physically at the principal meeting place of Function Room, Units 07-11, 26 Floor, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong with an option for online virtual attendance and participation via an e-meeting system (<https://spot-emeeting.tricor.hk/#/984>) on Friday, 25 August 2023 at 2:30 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 August 2023.

ORDINARY RESOLUTION

“THAT:

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

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

Hong Kong, 3 August 2023

Registered office:

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

Notes:

1. The EGM will be a hybrid meeting. Registered shareholders may attend the EGM either (a) in person; or (b) online through the Tricor e-Meeting System (<https://spot-emeeting.tricor.hk/#/984>) with the personalised login and access code provided by the Company's share registrar, Tricor Secretaries Limited, by post. Registered shareholders attending the EGM through the Tricor e-Meeting System will be able to vote and submit questions online. For non-registered shareholders whose Shares are held by banks, brokers, custodians or HKSCC Nominees Limited who wish to attend the EGM online, they should consult their banks, brokers, custodians or HKSCC Nominees Limited (as the case may be) for the necessary arrangements and the personalised login and access code will be sent to them upon receipt of request through the banks, brokers, custodians or HKSCC Nominees Limited.
2. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or (if he is a holder of two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
3. 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.
4. The Register of Members of the Company will be closed from 22 August 2023 to 25 August 2023, 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 21 August 2023.

NOTICE OF EXTRAORDINARY GENERAL MEETING

5. 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 registered holders 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.
6. Voting of the ordinary resolutions set out in this notice will be by way of poll.
7. Reference to times and dates in this notice are to Hong Kong times and dates.
8. If Typhoon Signal No. 8 or above is hoisted or remains hoisted at 12:30 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 25 August 2023 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.