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AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

**MAJOR TRANSACTION
IN RELATION TO
OFFER TO LEASE**

Financial Adviser to the Company



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

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

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

14 February 2020

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DEFINITIONS

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

“AEON Co.”	AEON Co., Ltd., a company incorporated in Japan with limited liability and the issued shares of which are listed on the Tokyo Stock Exchange (Stock Code: 8267)
“Agent”	SINO REAL ESTATE AGENCY LIMITED (信和地產代理有限公司), a company incorporated in Hong Kong with limited liability, being the agent of the Landlords
“associates”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“close associates”	has the same meaning ascribed to it under the Listing Rules
“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)
“Director(s)”	the directors of the Company
“Existing Lease”	the existing lease agreement and its extension letter entered into between the Company as tenant and the Landlords as landlords on 5 November 2014 and 13 November 2018 respectively in respect of the lease of the Premises
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	the independent third party(ies) who is/are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, independent of the Company and its connected person(s)
“Landlord(s)”	ENTERTAINMENT CITY LIMITED (娛樂天地有限公司), a company incorporated in Hong Kong with limited liability, and JADE MATE LIMITED (麗賢有限公司), a company incorporated in Hong Kong with limited liability, being landlords of the Premises

DEFINITIONS

“Latest Practicable Date”	10 February 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Offer to Lease”	the offer to lease issued by the Company as tenant on 15 November 2019 and accepted by the Agent as agent of the Landlords on 27 November 2019 in respect of the lease of the Premises
“Party(ies)”	the Company (as tenant) and the Agent (as agent of the Landlords)
“PRC”	the People’s Republic of China, which for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Premises”	1301–1350 of Floor 01, 081–112 of Floor G and 082–120 of Floor UG of Tuen Mun Town Plaza (I), 1 Tuen Shing Street, Tuen Mun, New Territories, Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	shares of the Company
“Shareholder(s)”	registered holders of the Shares from time to time
“Sino Land”	Sino Land Company Limited (信和置業有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 83), which is a non-wholly owned subsidiary of Tsim Sha Tsui Properties
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tsim Sha Tsui Properties”	Tsim Sha Tsui Properties Limited (尖沙咀置業集團有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 247)



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:

Isei NAKAGAWA (*Managing Director*)
CHAK Kam Yuen
LAU Chi Sum Sam
Takenori NAGASHIMA

Non-executive Directors:

Yuki HABU (*Chairman*)
Akinori YAMASHITA

Independent non-executive Directors:

CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong
Hideto MIZUNO

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Hong Kong

14 February 2020

To: the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO
OFFER TO LEASE**

INTRODUCTION

Reference is made to the announcement of the Company dated 27 November 2019 in relation to the entering into of the Offer to Lease in respect of the lease of the Premises.

On 27 November 2019, the Company as tenant received the duly accepted Offer to Lease (which was issued by the Company on 15 November 2019) from the Agent as agent of the Landlords in respect of the lease of the Premises. Prior to entering into the Offer to Lease, the Company has been occupying the Premises as tenant and has been operating one of its general merchandise stores at the Premises.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, further information on the details of the Offer to Lease and the transaction contemplated thereunder and other information as required under the Listing Rules.

THE OFFER TO LEASE

The principal terms of the Offer to Lease are set out below:

Date of acceptance:	27 November 2019
Parties:	Tenant: AEON Stores (Hong Kong) Co., Limited (永旺(香港)百貨有限公司), as tenant Agent: SINO REAL ESTATE AGENCY LIMITED (信和地產代理有限公司), as agent of the Landlords
Premises:	1301–1350 of Floor 01, 081–112 of Floor G and 082–120 of Floor UG of Tuen Mun Town Plaza (I), 1 Tuen Shing Street, Tuen Mun, New Territories, Hong Kong
Term:	From 16 April 2020 to 15 April 2026 (both dates inclusive)
Usage:	For use only by the Company and the Company's licensees (as permitted by the Landlords) as the operation of a general merchandise store, including supermarkets and restaurants under the trade name of AEON or such other name to be approved by the Landlords in advance (such approval shall not be unreasonably withheld)
Total consideration payable:	Total base rent for the entire term payable under the Offer to Lease is approximately HK\$618.2 million, which is subject to annual turnover rent which may be imposed pursuant to the terms and conditions of the Offer to Lease (exclusive of rates, government rent, management fee, air-conditioning charge, other charges and other outgoings) The consideration will be satisfied by internal resources of the Group
Payment term:	The monthly base rent shall be payable monthly in advance on the first day of each calendar month

LETTER FROM THE BOARD

The annual turnover rent (if payable pursuant to the terms and conditions of the Offer to Lease) shall be payable yearly in arrears; the annual turnover rent is determined based on prescribed percentage (at progressive rates ranging from 6% to 7%) on such portion of the annual gross sales turnover of the Company (including sums (i) received and/or receivable by the Company, its licensees, consignment operators or any other occupiers at the Premises for all goods sold, leased, hired or otherwise disposed of or for services rendered at the Premises; and (ii) received and/or receivable by the Company for the use and/or occupation of the Premises or any part thereof by any other person or body corporate) which exceeds HK\$1.0 billion

Deposit: Approximately HK\$33.7 million (representing three months of the monthly base rent, management fee, air-conditioning charge, rates and government rent), which was paid partly by cash and partly by way of bank guarantee (as guarantee of the due performance and observance by the Company of its obligations throughout the term of the Offer to Lease)

REASONS FOR AND BENEFITS OF THE OFFER TO LEASE

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

The Company is the existing tenant of the Premises under the Existing Lease and has been occupying the Premises as tenant for more than 20 years. As at the Latest Practicable Date, the Group occupied the Premises for operating and managing general merchandise store (e.g. supermarket and restaurants), being part of the Group’s principal business. As the Existing Lease will expire on 15 April 2020, the Offer to Lease, with a term of six years until 15 April 2026, allows the Group to continue to run its principal business at a place already with strong and established customer base.

LETTER FROM THE BOARD

The terms of the Offer to Lease, including the rental charge, were determined after arm's length negotiations between the Parties and with reference to the open market rent of comparable properties and the rental payment made by the Group under the Existing Lease. The entering into of the Offer to Lease is necessary for the operation of the retail businesses of the Group and in the ordinary and usual course of business of the Group. Therefore, the Board considers that the terms of the Offer to Lease are on normal commercial terms and are fair and reasonable and the entering into of the Offer to Lease is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION CONTEMPLATED UNDER THE OFFER TO LEASE

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

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar. After lease commencement, a lessee shall measure the right-of-use asset using a cost model, unless:

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

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

The value of right-of-use asset recognised by the Company under the Offer to Lease amounted to approximately HK\$539.7 million. Upon entering into of the Offer to Lease, along with the recognition of the right-of-use asset, a lease liability amounting to approximately HK\$516.4 million will be recognised. Since the Premises has been and will continue to be occupied for running the Group's general merchandise store, the Group's total lease expenses are expected to increase as a result of entering into the Offer to Lease.

LETTER FROM THE BOARD

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

	Property Valuation	Accounting Treatment
Professional standards adopted	HKIS Valuation Standards; RICS Valuation — Global Standards 2017; and IVSC valuation standards (where applicable and appropriate)	HKFRS 16
Valuation amounts and accounting figures	(i) Market rent of HK\$8.62 million per month (exclusive of government rent, rates and management fees) for a tenancy of six years under the Offer to Lease; and (ii) capitalised value of the six-year tenancy of approximately HK\$562.3 million	Recognition of right-of-use asset under the Offer to Lease of approximately HK\$539.7 million.
Difference between the property valuation approach and accounting treatment in respect of the Offer to Lease	The direct comparison approach is adopted, making reference to unit rents realised on actual rental transactions of comparable properties as well as analysing and weighing comparable properties with high similarity against all respective advantages and disadvantages of each property for fair comparison of rental value.	<p>The lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the incremental borrowing rate.</p> <p>The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred.</p> <p>The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.</p>

LETTER FROM THE BOARD

	Property Valuation	Accounting Treatment
Key parameters used in calculation of the capitalised value and right-of-use asset	i) Summation of present value of market rent of HK\$8.62 million per month during the term of the lease;	i) Summation of present value of rents (initially approximately HK\$7.80 million per month) agreed under the Offer to Lease;
	ii) A discount rate or estimated market yield of the Premises of 3.40% determined with reference to the market yield for private non-domestic properties published by the Rating and Valuation Department and adjustments to reflect the location, scale and nature of the Premises.	ii) Advance payment of approximately HK\$11.70 million, equivalent to initial rent for the first 1.5 months; iii) Other costs relating to the Offer to Lease such as reinstatement cost and professional fees; and iv) A discount rate based on the incremental borrowing rate of approximately 4.79% per annum.

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

INFORMATION ON THE PARTIES

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

The Landlords and the Agent are principally engaged in property investment and real estate agency activities, respectively. As at the Latest Practicable Date, the Landlords were held as to 100% and the Agent was held as to 50% by Sino Land (the issued shares of which are listed on the Stock Exchange), which was in turn held as to 54.69% by Tsim Sha Tsui Properties (the issued shares of which are listed on the Stock Exchange). The remaining 50% of the equity interest in the Agent was held by Deansky Investments Limited which was wholly controlled by Mr. Robert Ng Chee Siong (an executive director and the chairman of Sino Land and an executive director and the chairman of Tsim Sha Tsui Properties).

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Agent, the Landlords and their respective ultimate beneficial owner(s) are Independent Third Parties.

IMPLICATIONS UNDER THE LISTING RULES

Acquisition of asset by the Company

Pursuant to HKFRS 16, the entering into of the Offer to Lease as tenant will require the Group to recognise a right-of-use asset. Therefore, the entering into of the Offer to Lease will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of right-of-use asset recognised by the Company under the Offer to Lease amounted to approximately HK\$539.7 million.

Major transaction

As the highest applicable percentage ratio as defined under the Listing Rules in respect of the acquisition of right-of-use asset recognised by the Group pursuant to HKFRS 16 based on the consideration under the Offer to Lease is 25% or more but is less than 100%, the entering into of the Offer to Lease constitutes a major transaction of the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge of the Directors, as no Shareholder or any of their respective associates has a material interest in the Offer to Lease and the transaction contemplated thereunder, no Shareholder will be required to abstain from voting at a general meeting of the Company for approving the same. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting. The Company has obtained written approval from AEON Co., which directly holds 155,760,000 issued ordinary shares of the Company (representing 59.91% of its entire issued share capital as at the Latest Practicable Date). As such, the Company is exempted from convening a general meeting to approve the Offer to Lease and the transaction contemplated thereunder.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Offer to Lease are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Had a general meeting been convened for approval of the Offer to Lease, the Directors (including the independent non-executive Directors) would have recommended the Shareholders to vote in favour of the Offer to Lease.

LETTER FROM THE BOARD

FURTHER INFORMATION

Your attention is drawn to the financial information and general information of the Group as set out in the appendices to this circular.

Yours faithfully,
By Order of the Board of
AEON Stores (Hong Kong) Co., Limited
Yuki HABU
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited financial information of the Group for each of the years ended 31 December 2016, 2017 and 2018 are disclosed in the following annual reports of the Company for the years ended 31 December 2016, 2017 and 2018, respectively, and details of the unaudited interim financial information of the Group for the six months ended 30 June 2019 are disclosed in the following interim report of the Company for the six months ended 30 June 2019, which have been published and are available on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.aeonstores.com.hk):

- (a) the annual report of the Company for the year ended 31 December 2016 dated 22 March 2017 and published on 24 April 2017 (pages 36 to 91) in relation to the financial information of the Group for the same year (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0424/ltn20170424357.pdf>);
- (b) the annual report of the Company for the year ended 31 December 2017 dated 23 March 2018 and published on 17 April 2018 (pages 37 to 97) in relation to the financial information of the Group for the same year (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0417/ltn201804171123.pdf>);
- (c) the annual report of the Company for the year ended 31 December 2018 dated 20 March 2019 and published on 10 April 2019 (pages 38 to 109) in relation to the financial information of the Group for the same year (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0410/ltn20190410428.pdf>); and
- (d) the interim report of the Company for the six months ended 30 June 2019 dated 23 August 2019 and published on 18 September 2019 (pages 2 to 24) in relation to the financial information of the Group for the same period (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0918/2019091800223.pdf>).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2019, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

Bank guarantees

As at 31 December 2019, the Group had aggregate outstanding bank guarantees of approximately HK\$162.4 million, of which approximately HK\$32.0 million is secured by pledged bank deposits and approximately HK\$130.4 million is unsecured. None of the above are guaranteed as at 31 December 2019.

Lease liabilities

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities over the lease term. As at 31 December 2019, the Group had lease liabilities with outstanding principal amount of approximately HK\$4,876.5 million.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of the business, as at the close of business on 31 December 2019, the Group did not have any debt securities, issued and outstanding, and authorised or otherwise created but unissued, and term loans, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.

3. MATERIAL ADVERSE CHANGE

References are made to the profit warning announcement dated 16 July 2019, the interim report for the six months ended 30 June 2019 dated 23 August 2019 regarding the performance of the Group for the six months ended 30 June 2019 and the related information included therein and the profit warning announcement dated 7 February 2020. Save as disclosed in the publication above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, taking into account the Group's available financial resources, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Driven by the escalating trade friction between the PRC and the United States of America and the uncertain prospect of the global economy, fluctuations in the financial markets contributed to the decline in the economic performance and the retail markets in Hong Kong and the PRC, resulting in negative influence on consumption and retail sentiment.

Hong Kong operations

As adversely affected by the macroeconomic factors, the value of retail sales in Hong Kong in the first half of 2019 recorded a year-on-year decrease of approximately 2.6% according to the Census and Statistics Department of the government of Hong

Kong. Under such challenging business environment, the Group strives to implement effective marketing and promotion strategies, actively adjust its merchandise mix and improve its supply chain management. In particular, the Group plans to gradually replicate the successful elements of “AEON STYLE” in other stores, which has been receiving positive feedbacks from customers since its launch in Hong Kong, in order to offer better shopping experience to customers.

While the Group continues to proactively improve the performance of its existing stores, for greater flexibility in terms of locations and lease terms, the Group adheres to its core strategy of opening small specialty stores in prosperous neighbourhoods across Hong Kong in expanding its scale of operations. In addition, in the era of digitalisation, the Group plans to improve its operational efficiency by extending the application of information technology systems in its daily business operations, such as the increase in number of self-service cashier systems and introduction of mobile payment.

PRC operations

The Group expects that the global market environment will continue to hinder the economic development in the PRC. Nonetheless, as supported by the year-on-year growth of approximately 5.2% (excluding the price factor) in national per capita spending in the PRC in the first half of 2019 according to the National Bureau of Statistics, the Group believes that the spending power of Chinese citizens will continue to rise. As such, the PRC operations will remain as one of the key drivers to the growth of the Group.

Given the unstable market conditions, the Group will adopt a prudent approach in opening new stores. It will review and adjust the existing store portfolio and strategically close underperforming stores in order to improve the overall results of its PRC operations. As such, the Group will focus on increasing the revenue of its existing stores, such as by further promoting the concept of “AEON STYLE” in stores in the PRC to create innovative shopping experience for Chinese customers. Internally, the Group also strives to improve operational efficiency and strengthen cost control in order to raise profitability.

Looking ahead, the Group expects that the macroeconomic factors and ongoing uncertainties in the global economy, particularly those arising from the ongoing trade conflicts between the PRC and the United States of America, will continue to affect the economic performance as well as consumption and retail sentiment in both the PRC and Hong Kong. Meanwhile, the continuous development of the “New Retail” business model leads to intensified competition in the retail industry. Nonetheless, the Group believes that consumers will continue to pursue a higher living standard in the long run. As such, the Group will adhere to the concept of “customer first” and provide quality merchandise mix at reasonable prices with attentive shopping experience to customers, thereby maintaining its long-term market competitiveness in the changing retail market.

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from CBRE Limited, an independent valuer, in connection with its valuation as at 27 November 2019 of the property interests to be acquired by the Group.

CBRE Limited

Our Reference: C1912-0684-MA/IYU/tyi/tcw

14 February 2020

The Board of Directors

AEON Stores (Hong Kong) Company Limited

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地產代理 (公司) 牌照號碼

Estate Agent's Licence No: C-004065

Dear Sirs,

Re: 1301-1350 of Floor 01, 081-112 of Floor G and 082-120 of Floor UG of Tuen Mun Town Plaza (I), 1 Tuen Shing Street, Tuen Mun, New Territories, Hong Kong (“the Premises”)

We refer to the instruction from AEON Stores (Hong Kong) Company Limited (hereinafter refer to “the Company”) for us to carry out a valuation of the leasehold interests of the Premises for public circular purpose as at the Date of Valuation (defined hereinafter). Details are set out in the attached valuation certificate. We confirm that we have made relevant investigations and enquiries and obtained such further information as we consider necessary for providing you with our opinion of the Market Rent of the subject property interests as at 27 November 2019 (“the Date of Valuation”).

Valuation Basis and Assumptions

Our valuation is conducted in accordance with the HKIS Valuation Standards and compliant with the RICS Valuation — Global Standards 2017 and IVSC valuation standards where applicable and appropriate. All valuations are undertaken by appropriately qualified professionals, and the definition of market rent and valuation methodology are in line with the above standards.

Our valuation is made on the basis of Market Rent, which is defined as “the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

Our assessment of Market Rent assumes it is exclusive of government rent, rates and management fee and let for a tenancy of six years commencing on the Date of Valuation with no rental incentive.

Market Conditions

The value stated in this report represent our objective opinion of value in accordance with the definition set out above as of the Date of Valuation. Our assessment assumes (amongst other things), that the property has been properly marketed, and that exchange of contracts took place on this date. Going forward, we would draw your attention to the fact that the current volatility of the trade war and the unrest in Hong Kong has created a significant degree of uncertainty in the real estate market. The recent lack of liquidity in capital markets has hampered the sale of real estate in the short-term. We would therefore recommend that the situation and the valuations are kept under regular review, and that specific marketing advice is obtained should you wish to affect a disposal or acquisition.

Source of Information

We have obtained the Land Register records of the Premises from the Land Registry. However, we have not inspected the original document to verify ownership or to ascertain the existence of any amendment which may not appear on the copy handed to us. We have not perused any original land documentation. We have assumed that there is no easement or encumbrance which may affect the rental value but is not shown in the Land Register records.

No on-site measurement has been taken. Dimensions and areas included in the valuation certificate are based on the information provided by the Company. We have no reason to doubt the truth and accuracy of the information provided to us, which may be material to the valuation. Please note that all measurements are only approximations.

We have assumed that the Premises is erected within the lot boundaries. No site investigation has been carried out to determine the suitability of the subsoil condition, services, etc. for development and we have assumed that these aspects are satisfactory. This report does not make any allowance for contamination or pollution of land, if any, which may have occurred as a result of past usage.

We are not able to comment if there is any serious defect in the Premises. We have not carried out any structural survey or any tests on the building services, and we are not able to report whether the Premises is free from rot, infestation or any other structural defects. In this valuation, we assume the Premises is maintained in reasonable condition.

Valuation Methodology

We have adopted the Direct Comparison Approach in this valuation.

Under the Direct Comparison Approach, comparison is made based on unit rents realized on actual rental transactions of comparable properties. Comparable properties with high similarity to the subject are analysed and weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of rental value.

In view of the nature of the Premises, in assessing the Market Rent of the subject retail space, we have referred to recent registered rental transactions with retail spaces of larger scale with saleable area ranging from about 2,800 to 18,600 square feet and nearby shopping malls of the Premises in Tuen Mun area.

The Market Rent was determined by an analysis of the comparable rental transactions with adjustments for various characteristic differences between the comparables and the Premises. Adjustment factors considered include commencement time of the rental period, location, facilities, quality of arcade, size, ceiling height, building condition/age and the duration of tenancy term.

Unless otherwise stated, all monetary amounts are stated in Hong Kong Dollar (“HK\$”).

Limiting Conditions

This valuation shall be used only in its entirety and no part shall be used without taking consideration of the whole report. The contents as contained may not be used for any purposes other than the intended purpose mentioned above. Possession of the certificate or any copy thereof does not carry with it the right of copying. We do not accept liability to any third party or for any direct or indirect consequential losses or loss of profits as a result of this valuation.

The liability of CBRE Limited and its directors and employees is limited to the addressee of this report only. No accountability, obligation or liability to any third parties is accepted.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys’ fees, to which we may become subjects in connection with this engagement. Your obligation for indemnification and reimbursement shall extend to any controlling person of CBRE Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the three times of the amount of fees we received for this engagement.

We have no present or prospective interest in the properties and are not related corporation of the Company. We hereby confirm that our valuers undertaking this valuation assignment are authorized to practice as an independent valuer and have necessary expertise and experience in valuing similar types of properties.

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
CBRE Limited

Tsz-choi Wong
MHKIS MRICS RPS(GP)
RICS Registered Valuer
Senior Director
Valuation & Advisory Services

Dr. Tsz-choi Wong is a Member of the Hong Kong Institute of Surveyors (HKIS), a Member of the Royal Institution of Chartered Surveyors (RICS), Registered Professional Surveyor (General Practice Division) as well as a RICS Registered Valuer with over 20 years' experience in real estate valuation in Hong Kong.

Encl.

VALUATION CERTIFICATE

Premises	Description	Details of Occupancy	Market Rent as at 27 November 2019
1301-1350 of Floor 01, 081-112 of Floor G and 082-120 of Floor UG of Tuen Mun Town Plaza (I), 1 Tuen Shing Street, Tuen Mun, New Territories, Hong Kong ("the Premises")	Tuen Mun Town Plaza, Phase I ("the Development") is a residential cum commercial development bounded by Castle Peak Road — Castle Peak Bay, Tuen Shing Street, Tuen Wui Street, Tuen Shun Street and Tuen Lung Street at the central part of Tuen Mun area in the New Territories. It is accessible from the Light Rail Pui To Station by a few minutes' walk.	The Premises is currently leased to and occupied by AEON stores.	HK\$8,620,000 (Eight Million Six Hundred and Twenty Thousand Hong Kong Dollars) per month assuming it is exclusive of government rent, rates and management fee and let for a tenancy of six years commencing on the Date of Valuation with no rental incentive
5,873/19,784 shares of and in Tuen Mun Town Lot No. 209 (Re: G/F, UG/F and 1/F of the Commercial Accommodation of the Development)	<p>According to the Occupation Permit No. NT184/87, the Development was completed in 1987.</p> <p>The Premises comprises various retail shop units on Ground Floor, Upper Ground Floor and 1st Floor of the Commercial Accommodation of the Development for non-domestic use.</p> <p>As per the information provided by the Company, the Premises has a total gross floor area of about 187,871 square feet (or about 17,454 square metres).</p>		

Notes:

1. The Premises is held under New Grant No. TM2601 for a term of 99 years commencing from 1 July 1898 and statutorily extended to 30 June 2047.
2. The annual Government Rent payable is 3% of the rateable value of the Premises.
3. As per the land search records as at 9 December 2019, the Premises was owned by Jade Mate Limited as per an assignment dated 18 July 2003 registered vide Memorial No. TM1071708 (Re: G/F and UG/F) and Entertainment City Limited as per New Grant No. 2601 of TMTL 209 (Re: 1/F).
4. The G/F, UG/F and 1/F of the Commercial Accommodation of the Development are subject to the following major encumbrances.
 - Modification Letter with Plan dated 16 July 1987 registered vide Memorial No. TM306037, which refers to a change of Special Conditions in the New Grant in relation to building covenant, maximum gross floor area, users, rights and obligations regarding pedestrian bridges etc..
 - Occupation Permit dated 30 October 1987 registered vide Memorial No. TM315533, which is a copy of the Occupation Permit issued by the Building Authority on the whole Development.

- Deed of Mutual Covenant and Management Agreement dated 1 December 1987 registered vide Memorial No. TM317590, which is a copy of the deed of mutual covenant and management agreement covering and affecting the whole Development.
 - Letter of Modification with Plan dated 7 December 1987 registered vide Memorial No. TM317824, which refers to a change of Special Conditions in the New Grant allowing a certain area of the subject lot (not within the Premises) designated to be used as LPG Store.
 - Modification Letter from District Lands Officer Tuen Mun dated 18 July 2003 registered vide Memorial No. TM1071995 (Re: G/F and UG/F), which refers to a change of Special Conditions in the New Grant allowing (a) the provision of a new kindergarten in the Development subject to the approval of the Director of Education, (b) a change in the nature and user of each individual unit of the retail shop in the Development without prior approval by the Director and (c) flexibility in the provision of a market in the Development.
5. According to the information provided by the Company, the Premises is subject to an extension of lease from 16 July 2019 and expire on 15 April 2020. The premises rented under the existing lease covers the Premises and there is no separate rental agreement for the same area as the Premises for reference.
 6. The Building lies within an area zoned as “Residential (Group A) 6” under the Approved Tuen Mun Outline Zoning Plan No. S/TM/35 approved on 11 December 2018.
 7. Assuming the proposed six-year tenancy of the Premises is freely disposable and transferable, the capitalised value of the proposed six-year tenancy is calculated at approximately HK\$562,300,000, which is the summation of present value of the monthly discounted Market Rent for six years. The adopted discount factor is the estimated market yield of the Premises which is considered with reference to the market yields for private non-domestic properties published by the Rating and Valuation Department and made upward adjustments to reflect the location, scale and nature of the Premises.
 8. The Premises was inspected by Dr. Tsz-choi Wong, MHKIS MRICS RPS (GP), on 28 November 2019.

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 for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(a) *The Company*

Name of Director	Number of ordinary shares held as personal interests	Approximate percentage of interests %
HABU Yuki	20,000	0.00769

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

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
HABU Yuki (<i>Note 1</i>)	8,460	0.00097
NAKAGAWA Isei (<i>Note 2</i>)	2,400	0.00028
YAMASHITA Akinori (<i>Note 3</i>)	15,630	0.00179

Notes:

1. As confirmed by Ms. HABU Yuki, her shareholding in AEON Co., Ltd. is 8,460 shares.
2. As confirmed by Mr. NAKAGAWA Isei, his shareholding in AEON Co., Ltd. is 2,400 shares.
3. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Co., Ltd. is 15,630 shares.

(c) The Company's associated corporations

Name of Directors	Associated corporations	Number of shares held as personal interests	Approximate percentage of interests %
YAMASHITA Akinori (<i>Note 1</i>)	AEON Financial Services Co., Ltd.	10,976	0.00508

Note:

1. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Financial Services Co., Ltd. is 10,976 shares.

(b) Substantial Shareholders' interests

Save as disclosed below, as at the Latest Practicable Date, none of the shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Name of substantial Shareholders	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co., Ltd.	157,536,000 (<i>Note 1</i>)	60.59
Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	22,122,000 (<i>Note 2</i>)	8.51

Notes:

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

ACS is owned by AEON Co., Ltd., as to 280,588,000 shares representing 67.00% of the issued share capital of ACS. AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

2. As confirmed by Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group"), these shares are held by the Aberdeen Group on behalf of accounts managed by the Aberdeen Group in the capacity of an investment manager. Aberdeen Group has the power to vote as to 22,036,500 shares representing 8.48% of the total number of issued shares of the Company.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDER

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or proposed Directors is a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

	Name of substantial shareholder of the Company	Position in the substantial shareholder of the Company
HABU Yuki	Aeon Co., Ltd.	Executive Officer, China Business
YAMASHITA Akinori	Aeon Co., Ltd.	Director, Executive Vice President and Executer Officer, Chief Financial Officer, Business Management

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:

- (a) 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
- (b) 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 2018, being the date to which the latest published audited financial statements of the Company were made up.

7. MATERIAL 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.

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. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
CBRE Limited	Independent property valuer

As at the Latest Practicable Date, the above expert:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinions or 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 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

10. GENERAL

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

11. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the memorandum and articles of association of the Company;
- (b) the Offer to Lease;
- (c) the annual report of the Company for the year ended 31 December 2016;
- (d) the annual report of the Company for the year ended 31 December 2017;
- (e) the annual report of the Company for the year ended 31 December 2018;
- (f) the interim report of the Company for the six months ended 30 June 2019;
- (g) the letter from the Board, the text of which is set out on pages 3 to 10 of this circular;
- (h) the valuation report prepared by CBRE Limited, the text of which is set out in Appendix II to this circular;
- (i) the written consent referred to in the section headed "9. Expert and consent" in this appendix; and
- (j) this circular.