IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AEON Stores (Hong Kong) Co., Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

AEON STORES (HONG KONG) CO., LIMITED
永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

MAJOR TRANSACTION IN RELATION TO THE LEASE RENEWAL AGREEMENT

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

A letter from the Board is set out on pages 3 to 9 of this circular.

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

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

18 September 2020

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

"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
"ASC"	ASC China Co., Ltd.* 永旺華南商業有限公司, a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Board"	board of Directors
"Company"	AEON Stores (Hong Kong) Co., Limited (永旺(香港)百貨有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 984)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Existing Lease Agreement"	the existing lease agreement dated 4 April 2007 entered into by ASC and the Landlord in respect of the Existing Premises, as amended and supplemented by the confirmation dated 6 August 2010 and the supplemental agreements dated 12 May 2011 and 27 December 2018, respectively
"Existing Premises"	1st floor of basement and the 1st floor to 5th floor of the commercial podium in the 8th district of Donghu Garden in Huicheng District, Huzhou City, PRC
"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
"Landlord"	Donghu Estate (Huizhou) Development Co.,Ltd.* 東湖房產(惠州)開發有限公司, a company incorporated in the PRC
"Latest Practicable Date"	15 September 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Lease Renewal Agreement"	the lease renewal agreement dated 8 July 2020 in respect of the Premises entered into by ASC and the Landlord
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers
"PRC"	the People's Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Premises"	commercial parts on the 1st to 5th floors, loading area on the 1st floor of the basement and the equipment rooms on the 1st and 2nd floor of the basement and on the 6th floor of the commercial building in the 8th district of Donghu Garden in Huicheng District, Huizhou City, PRC
"RMB"	renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holders of the shares in the Company from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	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*

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
Shinya HISANAGA

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

Registered Office:
G–4th Floor
Kornhill Plaza (South)
2 Kornhill Road
Hong Kong

18 September 2020

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE LEASE RENEWAL AGREEMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 8 July 2020 in relation to, among other things, the Lease Renewal Agreement.

On 8 July 2020, ASC, a wholly-owned subsidiary of the Company, as tenant and the Landlord as landlord entered into the Lease Renewal Agreement in respect of the tenancy of the Premises for a term of eleven years commencing from 27 November 2023 and ending on 26 November 2034. The Existing Premises have been leased by ASC from the Landlord since 2007 for operating its retail businesses therein under the Existing Lease Agreement. As the Existing Lease Agreement will expire on 26 November 2023, ASC and the Landlord have entered into the Lease Renewal Agreement to extend and modify the terms of the Existing Lease Agreement.

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

THE LEASE RENEWAL AGREEMENT

The principal terms of the Lease Renewal Agreement are as follow:

Date:	8 July 2020
Parties:	(a) ASC, as tenant; and (b) the Landlord, as landlord
Premises:	Commercial parts on the 1st to 5th floors, loading area on the 1st floor of the basement and the equipment rooms on the 1st and 2nd floor of the basement and on the 6th floor of the commercial building in the 8th district of Donghu Garden in Huicheng District, Huizhou City, PRC
Term:	From 27 November 2023 and ending on 26 November 2034 (both dates inclusive)
Rent and management fee:	The total rent (excluding tax) payable under the Lease Renewal Agreement during the term is approximately RMB585 million exclusive of management fee, other charges and outgoings. The total management fee (excluding tax) payable under the Lease Renewal Agreement during the term is approximately RMB59.95 million. The rent and management fee under the Lease Renewal Agreement have been determined after arm's length negotiations between ASC and the Landlord, after taking into consideration the prevailing market price for comparable premises in the vicinity of the Premises and the existing rental under the Existing Lease Agreement.

Payment terms:	ASC shall pay the monthly rent to the Landlord in advance before the 10th day of each month. If the deadline for payment falls on a public holiday, the rent should be due on the next day following the public holiday.
Deposit:	A deposit in the amount equals to 3 times of the sum of the rent and management payable in the first month of the term of the Lease Renewal Agreement shall be payable by ASC 30 working days before 27 November 2023.

INFORMATION OF THE PARTIES

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

The Landlord is principally engaged in development, lease and sell of residential buildings, commercial buildings, business apartments and supporting facilities. The ultimate beneficial owners of the Landlord are Mr. Liu Xiaobo and Mr. Liu Fang who indirectly holds 60% and 40% of the shares in the Landlord respectively.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Landlord and its ultimate beneficial owner(s) are independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE LEASE RENEWAL AGREEMENT

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

The Existing Premises have been leased by ASC from the Landlord since 2007 for operating its retail business therein under the Existing Lease Agreement. As the Existing Lease Agreement will expire on 26 November 2023, ASC and the Landlord have entered into the Lease Renewal Agreement to extend and modify the terms of the Existing Lease Agreement.

The Board considers that the terms of the Lease Renewal Agreement are on normal commercial terms and are fair and reasonable and the entering into of the Lease Renewal Agreement is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION CONTEMPLATED UNDER THE LEASE RENEWAL AGREEMENT

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

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

(i) the right-of-use asset is an investment property and the tenant 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 tenant applies HKAS 16's revaluation model, in which case all right-of-use asset relating to that class of plant, property and equipment can be revalued.

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

The value of right-of-use asset recognised by the Company under the Lease Renewal Agreement amounted to approximately RMB410.5 million. Upon entering into of the Lease Renewal Agreement, along with the recognition of the right-of-use asset, a lease liability amounting to approximately RMB403.6 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 Lease Renewal Agreement.

Upon discussion with Cushman & Wakefield 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 Cushman & Wakefield 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 2017	HKFRS 16
Valuation amounts and accounting figures	(i) Market rent of RMB4.3 million per month (exclusive of value-added tax, building management fees and utilities charges) for a tenancy of eleven years with the same duration term as Lease Renewal Agreement; and (ii) capitalised value of the eleven-year tenancy of approximately RMB420 million.	Recognition of right-of-use asset under the Lease Renewal Agreement of approximately HK$410.5 million.
Difference between the property valuation approach and accounting treatment in respect of the Lease Renewal Agreement	The market comparison method is adopted, making reference to recent market rental evidences of similar properties to compare with the Premises under assessment. This is done by making adjustments to the unit rent for various factors including but not limited to time, duration of tenancy term, location and environment, accessibility, age and maintenance, parking provision, size and volume, decoration standard, visibility, etc.	The lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the incremental borrowing rate. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus adjustments required for deposits payments. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

	Property Valuation	Accounting Treatment
Key parameters used in calculation of the capitalised value and right-of-use asset	(i) Market rent of RMB4.3 million per month during the term of the lease; (ii) An estimated market capitalization rate of the Premises of 5.25% determined with reference to the yields generally expected by the market for comparable properties of similar use type, which implicitly reflect the type and quality of the property, the expectation of the potential future rental growth, capital appreciation and relevant risk factors.	(i) Summation of present value of rents (initially approximately RMB3.8 million per month) agreed under the Lease Renewal Agreement; and (ii) A discount rate based on the incremental borrowing rate of approximately 6.97% per annum.

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

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to HKFRS 16, the entering into of the Lease Renewal Agreement as tenant by ASC will require the Group to recognise the Premises as a right-of-use asset. Therefore, the entering into of the Lease Renewal Agreement 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 Lease Renewal Agreement amounted to approximately RMB410.5 million.

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 Lease Renewal Agreement is 25% or more but is less than 100%, the entering into of the Lease Renewal Agreement constitutes a major transaction for 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, no Shareholder has a material interest in the Lease Renewal Agreement and the transaction contemplated thereunder, and no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting for approving the Lease Renewal Agreement. The Company has obtained written approval from AEON Co., which holds 155,760,000 issued ordinary shares of the Company (representing 59.91% of its entire issued share capital as at the date of this announcement) in respect of the Lease Renewal Agreement. As such, the Company is exempted from convening a general meeting to approve the Lease Renewal Agreement and the transaction contemplated thereunder.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Lease Renewal Agreement 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 Lease Renewal Agreement, the Directors (including the independent non-executive Directors) would recommended the Shareholders to vote in favor of the Lease Renewal Agreement.

ADDITIONAL INFORMATION

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

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 are disclosed in the following documents which are published on both the websites of the Stock Exchange and the Company. Please refer to the hyperlinks as stated below:

annual report of the Company for the year ended 31 December 2017:
https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0417/ltn201804171123.pdf (page 43 to 98)

annual report of the Company for the year ended 31 December 2018:
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0410/ltn20190410428.pdf (page 44 to 110)

annual report of the Company for the year ended 31 December 2019:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042201202.pdf (page 50 to 126)

interim results of the Company for the six months ended 30 June 2020:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0827/2020082700316.pdf (page 1 to 9)

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 July 2020, 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 July 2020, the Group had aggregate outstanding bank guarantees of approximately HK$136.7 million, of which approximately HK$30.8 million is secured by pledged bank deposits and approximately HK$105.9 million is unsecured. None of the above are guaranteed as at 31 July 2020.

Lease liabilities

As at 31 July 2020, the Group had lease liabilities with outstanding principal amount of approximately HK$4,847.7 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 July 2020, 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.

Significant Investments Held

The Company and its subsidiaries are engaged in the operation of retail stores. The principal activities and other particulars of the Company's subsidiaries are set out in note 44 to the financial statements for the year ended 31 December 2019 as included in the Company's annual report for the year ended 31 December 2019.

Foreign Currency Risk and Hedging

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

Liquidity

As at 30 June 2020, the Group's total liabilities primarily comprised of lease liabilities amounting to HK$4,527,500,000, of which HK$775,600,000 is payable within one year. The Group's lease liabilities to equity ratio as at 30 June 2020 (defined as the total lease liabilities divided by equity attributable to the owners of the Company) was 660%.

Employees and Remuneration Policy

As at 30 June 2020, the Group had about 6,500 full-time and 3,900 part-time employees in Hong Kong and the PRC. Total staff costs for the six months ended 30 June 2020 were approximately HK$534,468,000.

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

Future Plans

According to the investment plans in 2020, the expected total capital expenditure in the second half period is approximately HK$227,100,000.

3. WORKING CAPITAL STATEMENT

Taking into account the Lease Renewal Agreement and the financial resources available to the Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, which is for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

References are made to the profit warning announcement dated 28 July 2020, the interim results announcement for the six months ended 30 June 2020 dated 27 August 2020 regarding the performance of the Group for the six months ended 30 June 2020 and the related information included therein. 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 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

In the first half of 2020, starting from January with the novel coronavirus (COVID-19) outbreak, the flow of people and goods, as a vital part of economic activity, has been under restriction, which subsequently severely affected the global economy. Consumer behavior and the consumption pattern in Hong Kong and China has also changed. As a player in the retail industry, the Group needed to take decisive action in response to the changes.

Hong Kong Operations

In the first half of the year, the consumption behaviour of customers changed significantly, with an increasing proportion electing to stay at home, so they had greater concern about the improvement of the living environment as well as health and safety. To cater for the needs of customers, the Group not only assured the supply of local products, but also sourced merchandise which was needed by Hong Kong residents from Japan, South East Asia and China by capitalising on the procurement channels of AEON Group, so as to fulfill its mission of supporting the community.

The Group completed the extensive renovation of its Tuen Mun store, one of its core retail outlets in the first half of the year, and in order to increase the sales proportion of local customers, the Group enhanced the differentiation of its food division, strengthened the variety of fresh food such as fish, meat and vegetables and enriched the portfolio of processed food products which are primarily made in Japan. In addition, the Group also reorganised its apparel and household merchandise categories, which are family-oriented, along with the store layout. It also actively introduced the brands under AEON Japan Group. Moreover, the Group completed small-scale renovations in three stores in Hong Kong, and at the same time introduced house brands, namely "HÓME CÓORDY", "iC innercasual" and "KIDS REPUBLIC" in suitable stores, with the aim of bringing high quality products and a new shopping experience to customers.

"HÓME CÓORDY" primarily provides household products, featuring Japanese elements such as simple design, suitable prices, multi-functionality, colorful appearance and being easy to mix-and-match, so it has been well-received by customers. (Four specialty outlets were opened in the Group's stores.) Moreover, "iC innercasual", which primarily provides functional causal underwear, comfortable homewear and casual wear, reported a better-than-expected sales performance. (Two specialty outlets were opened in the Group's stores.) To facilitate business growth of Living Plaza and increase its revenue, the Group opened two "Living Plaza" outlets during the period under review. Meanwhile, it has reviewed and optimised its store opening, construction and operation infrastructure. As for daily operations, the Group added more self-service cashier systems and a "POS Express" mobile payment system in suitable stores in order to accelerate payment and provide greater convenience to customers. In the first half of the year, revenue from Hong Kong operations increased by 15.9% to HK$2,423,300,000 (2019: HK$2,091,600,000), while loss was down to HK$66,600,000 (2019: HK$89,000,000) mainly attributable to sales growth and effective implementation of strict cost control measures.

The Group plans to speed up the opening of Living Plaza stores in the third quarter of 2020. In the year, 15 stores have been targeted to open, so the total number of Living Plaza outlets in 2020 will exceed those in 2019 significantly.

The Group will further improve its online platform than in 2019 by introducing services including product reservation and delivery of bento, sushi, etc, thereby improving results with better online sales. The Group also plans to promote the use of the online platform in the second half and provide more services to customers, so as to facilitate future development in 2021.

PRC Operations

Amidst the pandemic, the Group has obtained the government's approval to continue its food business operations and support the commodity needs of the community. It has enhanced the services of its online supermarket to address the needs of customers who are unable to go out and also opened new supermarkets in Southern China during March. In the first half of the year, growth in revenue of the PRC operations was partly offset by the 4.6% depreciation of RMB against HK dollar when compared with the previous corresponding period, and thus slightly decreased to HK$2,734,400,000 (2019: 2,738,200,000). However, as a result of the Group's efforts in optimising store portfolio and implementing effective cost control measures, its PRC operations improved notably to record a profit of HK$2,100,000 during the period (2019: loss of HK$65,600,000).

In the future, the Group will continuously streamline the operating network to improve its operational efficiency and overall business performance. In the long term, the Group believes that the PRC market still possesses huge growth potential, which will remain as an important driver of the Group's business development.

The following is the text of a letter and valuation report prepared for the purpose of incorporation in the Circular, received from Cushman & Wakefield Limited ("C&W"), an independent property valuer, in connection with its opinion of rental value of the property interest to be leased by the Company as at 8 July 2020.

CUSHMAN & WAKEFIELD
戴德梁行

16/F
Jardine House
1 Connaught Place
Central
Hong Kong

18 September 2020

The Directors
AEON Stores (Hong Kong) Company Limited
Units 7–11, 26th Floor
CDW Building
388 Castle Peak Road
Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

Re: Portions of AEON Huizhou Shopping Center, No. 8 Donghu Garden, Donghu West Road, Huicheng District, Huizhou, Guangdong Province, the PRC (the "Property")

INSTRUCTIONS, PURPOSE & VALUATION DATE

We refer to the instructions of AEON Stores (Hong Kong) Company Limited (the "Company") for us to provide our opinion of the market rent of the Property (as more particularly described in the valuation report) in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary to provide the Company with our opinion of the market rent of the Property as at 8 July 2020 for regulatory circular purpose.

BASIS OF VALUATION

Our valuation of the Property represents its market rent which in accordance with HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors ("HKIS") 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".

VALUATION ASSUMPTIONS

Our valuation excludes an estimated rental inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the letting, or any element of value available only to a specific lessor or lessee.

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

Unless otherwise stated, our valuation of the Property is on a 100% interest basis.

No allowance has been made in our report for any charges, mortgages or amounts neither owing on the Property valued nor for any expenses or taxation which may be incurred in effecting a lease.

Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its market rent.

MARKET UNCERTAINTY

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

METHOD OF VALUATION

In valuing the Property, we have adopted Market Comparison Method.

The Market Comparison Method is universally considered the most accepted assessment method for assessing the rent of most forms of real estate. This involves the analysis of recent market rental evidences of similar properties to compare with the Property under assessment. Each comparable is analysed on the basis of its unit rent; each attribute of the comparable is then compared with the Property and where there is a difference, the unit rent is adjusted in order to arrive at the appropriate unit rent for the Property. All rental comparables that we have identified have anchor brands similar to AEON which are currently under lease. Considering the location catchment and size of the

Property, we started with comparables in Huizhou, then in Guangdong Province, with large size. When only a few were encountered, we went further back in other cities. Also, comparables with recent lease commencement dates, which within five years are preferable. However, as anchor brands usually sign a long-term lease over ten years with the landlord and the number of anchor brands are limited, the leasing transactions of this use type are infrequent in the market. Considering anchor brands enjoy popularity and stable operation cash flow, we observed that the rent of these long-term leases is quite steady for the past ten years. Time effect bring about no material influence to the rent of comparables. We have identified a total of five comparables, which are Huizhou comparable, Guangzhou comparable, Shenzhen A comparable, Shenzhen B comparable and Harbin comparable. If the comparable was superior to the Property, downward adjustment was made. If inferior, upward adjustment was made. All comparables adopted unit rent of RMB per sq.m. per month for analysis. The major factors of comparison used to value the Property include city, district (location and environment, transportation, accessibility, and customer base), the quality of the department store/shopping center itself (decoration standard, visibility, etc.), storey, building age, size, and lease commencement date.

We have analysed comparables' differences in terms of the above-said factors. Regarding city factor, Guangzhou comparable, Shenzhen A comparable and Shenzhen B comparable are situated in tier-1 cities, which are superior to the Property, therefore, we have adjusted downward. Huizhou comparable and Harbin comparable are situated in tier-2 cities which have similar economy level with the city of the Property, no adjustment was required. In terms of district factor, Harbin comparable is located in a similar district as the Property, a traditional and well-developed central hub of the city with convenient transportation, thus, no adjustment was made. Huizhou comparable, Guangzhou comparable, Shenzhen A comparable and Shenzhen B comparable are located in districts of inferior location and environment, transportation, accessibility and customer base. We have adjusted upward to reflect such lack of benefit. Regarding the quality of the department store/shopping center in its decoration standard and visibility, Harbin comparable has similar quality as the Property, therefore, no adjustment is made. Guangzhou comparable, Shenzhen A comparable and Shenzhen B comparable are slightly inferior to the Property in terms of quality, so we have made slight upward adjustment. Huizhou comparable has relatively poor quality in decoration standard and visibility compared to the Property, therefore, we have adjusted upward in a certain degree. As vertical circulation usually decreases when moving to upper storeys, adjustments are necessary for distinction of different storeys. Usually, the unit rent of level 1 is the highest as people firstly access to level 1 after entering the gate of department store or shopping center. The unit rent of basement 1 and level 2 are the secondary highest. People can easily access these two storeys by taking an escalator. With the rise of storey, vertical accessibility decreases, thus the unit rent drops down accordingly. Unit rent need to be adjusted with respect to different combination of storeys. The Property have five retail storeys from level 1 to level 5. Guangzhou comparable have three storeys from basement 1 to level 2, Shenzhen A comparable have three storeys from level 1 to level 3, and Shenzhen B comparable have four storeys from basement 2 to level 2. The average unit rent of Guangzhou comparable, Shenzhen A comparable and Shenzhen B comparable are higher than the Property. So, we have adjusted downward. Huizhou comparable has the same number of storeys as the Property, so no adjustment was required. Harbin comparable has nine storeys from basement 2 to level 7 and the average unit rent of Harbin comparable is lower than the Property, so, we have adjusted upward. As a property has its life cycle and has depreciated year by year after completion date, an old property should have less value. All five comparables' were built after the Property's completion date, therefore, downward adjustments were made for the five comparables to reflect the building age factor. The size and scale of all five comparables are smaller than the Property, considering the quantum effect, we have adjusted downward. The lease commencement date of all five comparables varied but started before the lease renewal date of the Property, therefore, we made upward adjustment accordingly regarding lease commencement date factor.

We have placed greatest reliance on Huizhou comparable as it is the nearest comparable to the Property with least net adjustments. We have placed secondary reliance on Guangzhou comparable, Shenzhen A comparable and Shenzhen B comparable and have reconciled accordingly in our analysis. We have also allocated a small weighted average proportion for Harbin comparable which has the most similar locality in the city compared to the Property.

SOURCE OF INFORMATION

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Company and have accepted advice given to us on matters, such as identification of the Property, particulars of occupancy, floor area and all other relevant matters. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

Dimensions, measurements and areas included in the valuation report are based on information provided by the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

TITLE INVESTIGATION

We have been provided with copies of real estate title certificates by the Company in relation to the current title to the Property. The lessor of the tenancy agreement is the legal owner of the Property. In valuing the Property, we have assumed that the owner of the Property has an enforceable title to the Property and has free and uninterrupted rights to use, occupy, assign or lease the Property for the whole or part of the unexpired term as granted. We have not verified the authentication of the real estate title certificates and we assume that the copy of relevant documents provided by the Company are true and accurate.

SITE INSPECTION

Ms. Aileen Zhang, our Guangzhou office valuer, inspected the exterior and, whenever possible, the interior of the property on 30 June 2020. Ms. Aileen Zhang is a qualified valuer of China Institute of Real Estate Appraisers and Agents (CIREA) who has about 6 years' experience in the valuation of properties in the PRC. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the Property is free of not, infestation or other structural defects. No test was carried out on any of the services. Our valuation is prepared on the assumption that these aspects are satisfactory. We have not been able to carry out on-site measurements to verify the site and floor areas of the Property and we have assumed that the area shown on the documents handed to us are correct.

CURRENCY

Unless otherwise stated, all monetary amounts indicated herein our valuation are in Renminbi ("RMB"), the official currency of the PRC.

CONFIRMATION OF INDEPENDENCE

We hereby confirm that C&W and the valuers conducting this valuation have no pecuniary or other interests that could conflict with the proper valuation of the Property or could reasonably be regarded as being capable of affecting his ability to give an unbiased opinion.

We enclose herewith a valuation report for your attention.

Yours faithfully,
for and on behalf of
Cushman & Wakefield Limited
Grace S.M. Lam
MRICS, MHKIS, RPS (GP)
Director
Valuation & Advisory Services, Greater China

Note: Ms. Grace S.M. Lam is a Registered Professional Surveyor who has over 25 years of experience in the valuation of properties in the PRC, Hong Kong and other Asian countries. Ms. Lam has sufficient current national knowledge of the market, and the skills and understanding to undertake the valuation competently.

VALUATION REPORT

The Property to be leased by the Company in the PRC

<table>
<tr><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Market rent in existing state as at 8 July 2020</th></tr>
<tr>
<td>Portions of AEON Huizhou Shopping Center, No. 8 Donghu Garden, Donghu West Road, Huicheng District, Huizhou, Guangdong Province, the PRC</td>
<td>AEON Huizhou Shopping Center is an 8-storey shopping center consisting of retail, ancillary and car park areas. Opened in 2008, the Property comprises portions of Basement 2 to Level 6.

The Property is located in a large mature residential area in Huicheng District called "Donghu 9 Districts". Huicheng district is the earliest developed and the most mature district of Huizhou. As the economy hub of Huizhou, the Huizhou municipal government is situated in this district. Pursuant to the certificate of state-owned land use rights provided by the Company, the land use of the Property is for urban mixed residential use. The Property is surrounded by nine phases of a well-developed large residential project, namely Donghu Garden. A number of residential projects are in the vicinity of the Property, such as Dongcheng New Garden (東城新苑), Yijing Mingzhu (頤景明珠), Heqing Garden (和慶花園), as well as several shopping centers nearby, such as Sunflower Commercial Center (向日葵商業中心) and Longsheng Plaza (隆生廣場). The accessibility to the Property is considered to be convenient. There are two trunk roads nearby, Donghu West Road and Huizhou Avenue, both are within 500 meters' distance to the Property. The Dongping Park bus stop is 100 meters away from the Property, only 5 minutes' walk from the Property. Various bus routes including Nos. 6, 9, 13, 14, 16, 20, 30, 38 and 201 are easily accessible in the neighborhood. The Property is about 6 kilometers away from Huizhou Bus Station.

The Property is subject to an existing tenancy of 15 years due to expire on 26 November 2023 for a smaller portion of the shopping center. The landlord and the tenant (the Company) have entered into a lease renewal agreement on 8 July 2020 to renew the tenancy for a relatively larger portion as described below for another 11 years upon expiry.

Pursuant to the lease renewal agreement provided by the Company, the total lettable area being occupied is approximately 70,886 sq.m. with details as follow:

<table>
<tr><th>Use</th><th>Level</th><th>Approximate Lettable Area
(sq.m.)</th></tr>
<tr><td>Retail</td><td>1–5</td><td>66,804</td></tr>
<tr><td>Ancillary</td><td>B2-B1, 6</td><td>4,082</td></tr>
<tr><td>Total</td><td></td><td>70,886</td></tr>
</table>

Pursuant to the lease renewal agreement provided by the Company, the area for assessing payable rent is 68,845 sq.m. in total, inclusive of 66,804 sq.m. for retail use and half of lettable area for ancillary use, which is 2,041 sq.m.</td>
<td>As at the valuation date, the Property was leased to and occupied by the Company as AEON Store. The monthly rent payable as at 8 July 2020 was approximately RMB38.66 per sq.m. exclusive of building management fees and utilities charges. We are advised by the Company that such rent was inclusive of value-added tax.

Main brands in the Property consist of KFC, Huawei, Uniqlo, McDonald's, Adidas, Balabala, etc.

NF Baiyu Cinema on Level 4 is now closed as per government's requirement considering the recent outbreak of the COVID-19.</td>
<td>RMB4,300,000 (FOUR MILLION AND THREE HUNDRED THOUSAND) per month, excluding value-added tax, building management fees and utilities charges

(see Note (1) below)</td>
</tr>
</table>

Notes:

(1) The rental valuation is conducted on the assumption that the Property is let for a term of 11 years from the valuation date without varying rent, turnover rent or rental incentive.

(2) We have considered various rental comparables as available in the market and made appropriate adjustments to reflect the differences between the Property and the comparables in different aspects including but not limited to city, district (location and environment, transportation, accessibility, and customer base), the quality of the department store/shopping center itself (decoration standard, visibility, etc.), storey, building age, size, and lease commencement date, etc.

Assuming the renewal tenancy of the property commences on the valuation date and is freely disposable and transferable, the capitalized value of the market rent under this 11-year tenancy would be in the range of RMB420,000,000. The adopted capitalization rate is estimated by reference to the yields generally expected by the market for comparable properties of similar use type, which implicitly reflect the type and quality of the property, the expectation of the potential future rental growth, capital appreciation and relevant risk factors. The capitalization rate adopted is reasonable and in line with the market norm having regard to the analyzed yields of transactions of the relevant use type.

(3) We have been provided with copies of real estate title certificates and certificate of state-owned land use rights by the Company in relation to the current title to the Property. The lessor of the tenancy agreement is the legal owner of the Property. In valuing the Property, we have assumed that the owner of the Property has an enforceable title to the Property and has free and uninterrupted rights to use, occupy, assign or lease the Property for the whole or part of the unexpired term as granted. We have not verified the authentication of the real estate title certificates and the certificate of state-owned land use rights and we have assumed that the copies of relevant documents provided by the Company are true and accurate.

Pursuant to the certificate of state-owned land use rights, the land tenure of the property is due to expire on 15 September 2062 for urban mixed residential use.

(4) We have assumed that all consents, approvals and licences from relevant government authorities for the development have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the Property are in compliance with the local planning regulations and have been approved by the relevant authorities.

We have assumed that transferable land use rights in respect of the property for a specific land use term at nominal annual land use fee have been granted and that any premium has already been fully settled.

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 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 *(Note 1)*	8,460	0.00097
NAKAGAWA Isei *(Note 2)*	2,400	0.00028
YAMASHITA Akinori *(Note 3)*	20,630	0.00237
HISANAGA Shinya *(Note 4)*	2,030	0.00023

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 20,630 shares.

(4) As confirmed by Mr. HISANAGA Shinya, his shareholding in AEON Co., Ltd. is 2,030 shares.

(c) The Company's associated corporation

Name of Director	**Associated corporation**	**Number of shares held as personal interests**	**Approximate percentage of interests** %
YAMASHITA Akinori *(Note 1)*	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.	157,536,000 *(Note 1)*	60.59
Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	18,017,500 *(Note 2)*	6.93

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 18,017,500 shares representing 6.93% 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 Vice President Digital Business and China Business
YAMASHITA Akinori	Aeon Co., Ltd.	Director, Senior Executive Vice President and Executive 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, 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 2019, being the date to which the latest published audited financial statements of the Company were made up.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business which competed, or might compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

8. MATERIAL CONTRACTS

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

9. LITIGATION

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

10. EXPERTS AND CONSENTS

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

Name	Qualification
Cushman & Wakefield Limited	Independent property valuer

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 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 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

11. GENERAL

(1) The registered office of the Company is at G-4 Floor, Kornhill Plaza (South), 2 Kornhill Road, Hong Kong.

(2) The principal place of business of the Company is at Units 07–11, 26/F, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong.

(3) The share registrar of the Company is at Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong.

(4) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

(5) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. 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):

(1) the articles of association of the Company;

(2) the Existing Lease Agreement and Lease Renewal Agreement;

(3) the annual report of the Company for the year ended 31 December 2017;

(4) the annual report of the Company for the year ended 31 December 2018;

(5) the annual report of the Company for the year ended 31 December 2019;

(6) the interim results of the Company for the six months ended 30 June 2020;

(7) the letter from the Board, the text of which is set out on pages 3–9 of this circular;

(8) the valuation report prepared by Cushman & Wakefield Limited, the text of which is set out in Appendix II to this circular;

(9) the written consent referred to in the section headed "10. Expert and consent" in this appendix; and

(10) this circular.