THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares **in AEON Stores (Hong Kong) Co., Limited**, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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 SUPPLEMENTAL LEASE 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 4 to 13 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 Shareholders for information only.

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

15 January 2024

CONTENTS

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
"AEON GD"	Guangdong AEON Teem Co., Ltd. (廣東永旺天河城商業有限公司), a company incorporated in the PRC and owned as to 65% by the Company
"AEON Group"	AEON Co and its subsidiaries and, unless the context require otherwise, excluding members of the Group
"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
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Existing Lease Agreement"	the existing lease agreement dated 31 March 2009 entered into by AEON GD and the Landlord in respect of the leasing of the Existing Premises from 21 January 2010 to 22 January 2025 (both days inclusive) for a total rent of approximately RMB113.3 million and total management fee of RMB49.9 million for AEON GD's operation of a retail store in the name of "AEON" and "永旺" (as amended and supplemented by a memorandum and three supplemental agreements dated 29 August 2009, 10 March 2010, 21 April 2011 and 1 March 2013 respectively)

"Existing Premises"	portions of the commercial property in Basement 1 and on the Ground Floor, Sun City Mall, No. 1811 & 1813 North Guangzhou Avenue, Baiyun District, Guangzhou City, Guangdong Province, China* (中國廣東省廣州市白雲區廣州大道北1811、1813號嘉裕太陽城廣場負一層及首層部分商業物業) with a total lease area of approximately 13,772.8 square meters
"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	any person or company and their respective ultimate beneficial owner, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is/are not connected persons of the Group and is/are third party(ies) independent of the Group and its connected persons in accordance with the Listing Rules
"Landlord"	Guangzhoushi Jiayu Real Estate Development Co., Ltd.* (廣州市嘉裕房地產發展有限公司), a company incorporated in the PRC which is wholly owned subsidiary of Guangzhoushi Jiasheng Chuangfu Investment Co., Ltd.* (廣州市嘉盛創富投資限公司), a company incorporated in the PRC whose shareholders are Li Yu Zhen* (李玉珍), holding 85.46%, and Li Gen Zhang* (李根長), holding 14.54%.
"Latest Practicable Date"	9 January 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Premises"	portions of commercial property in Basement 1, Sun City Mall, No. 1811 & 1813 North Guangzhou Avenue, Baiyun District, Guangzhou City, Guangdong Province, China* (中國廣東省廣州市白雲區廣州大道北1811、1813號嘉裕太陽城廣場負一層部分商業物業) with a total lease area of approximately 11,720.8 square meters
"RMB"	Renminbi, the lawful currency of the PRC
"Shareholder(s)"	holders of the shares of the Company from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Lease Agreement"	The Supplemental Lease Agreement dated 29 December 2023 in respect of the Premises entered into by AEON GD and the Landlord
"Surrendered Portion"	The portions of commercial property on the Ground Floor of the Existing Premises to be surrendered by AEON GD to the Landlord on 1 March 2024
"%"	per cent.

* *the English names of the entities incorporated in the PRC or addresses in the PRC are translation of their respective Chinese company names or addresses 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)

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

Executive Directors:
Mr. Takenori NAGASHIMA *(Managing Director)*
Mr. Shinya HISANAGA

Non-executive Directors:
Mr. Isei NAKAGAWA *(Chairman)*
Mr. Makoto FUKUDA
Mr. Toshiya GOTO
Mr. Hiroyuki INOHARA

Independent Non-executive Directors:
Mr. CHOW Chi Tong
Mr. Hideto MIZUNO
Ms. SHUM Wing Ting

15 January 2024

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE SUPPLEMENTAL LEASE AGREEMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 29 December 2023 in relation to the Supplemental Lease Agreement.

On 29 December 2023, AEON GD, a non-wholly-owned subsidiary of the Company, as tenant, and the Landlord, as landlord, entered into the Supplemental Lease Agreement to surrender a portion of the leasing area under the Existing Lease Agreement with effect from 1 March 2024 and to extend the tenancy term of the Premises from 23 January 2025 and ending on 22 January 2034. AEON GD has been operating its retail businesses in the Existing Premises under the Existing Lease Agreement since 23 January 2010.

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

THE SUPPLEMENTAL LEASE AGREEMENT

The principal terms of the Supplemental Lease Agreement are as follows:

Date	29 December 2023
Parties:	(a) AEON GD, as tenant; and (b) the Landlord, as landlord
Existing Premises:	Portions of the commercial property in Basement 1 and on the Ground Floor, Sun City Mall, No. 1811 & 1813 North Guangzhou Avenue, Baiyun District, Guangzhou City, Guangdong Province, China* (中國廣東省廣州市白雲區廣州大道北1811、1813號嘉裕太陽城廣場負一層及首層部分商業物業)
Partial surrender:	AEON GD shall surrender the portions of commercial property on the Ground Floor of the Existing Premises ("**Surrendered Portion**") to the Landlord on 1 March 2024 and, for this purpose, shall cease its businesses therein after 24 February 2024 and remove therefrom all movable shelves, merchandise and equipment but shall not be required to dismantle the fixed installations (the "**Partial Surrender**"). During the removal period from 25 February 2024 to 29 February 2024, AEON GD doesn't need to pay rent in respect of the Surrendered Portion but is responsible for the management fees and other outgoings. After the Partial Surrender, the unit rates for rent and management fees in respect of the remaining portions of the Existing Premises (i.e. the Premises), starting from 1 March 2024, is reduced for the reminder term of the Existing Lease Agreement. AEON GD's lease in respect of the remaining portions of the Existing Premises is extended by the Extended term under the Supplemental Lease Agreement.

Prior to the Partial Surrender, AEON GD has licensed certain areas in the Surrendered Portion for the use by three of its licensees at payment by each of them the respective license fees and for the respective license periods up to the original expiry date of the Existing Lease Agreement. AEON GD's licence agreements with the three licensees contain terms for AEON GD to terminate the respective licence agreement at the expiry or early termination of AEON GD's lease with the Landlord without making any compensation. AEON GD has agreed with the Landlord to terminate the respective licences with the three licensees on 29 February 2024 whereas the Landlord agrees to procure sub-tenancies of the same terms and locations as those of the respective licence agreements to be signed with the respective licensees to avoid any unnecessary disputes.

After termination of the licence agreements with the three licensees, AEON GD will receive no further license fees from the three licensees for the reminder of the term of the Existing Lease Agreement. Since the areas licensed to three licensees represents only approximately 23% of the Surrendered Portion, the total license fees for the reminder of the term of the Existing Lease Agreement is less than the aggregated amounts of (i) the total rent and management fee payable in respect of the Surrendered Portion for the same period under the Existing Lease Agreement and (ii) the total savings arising from the reduced unit rates for rent and management fees payable in respect of the remaining portions of the Existing Premises for the same period under the Existing Lease Agreement. As such, the Partial Surrender and the arrangement for the three licensees are in the interests of the Company's shareholders.

Extended term: An additional period from 23 January 2025 and ending on 22 January 2034 (both dates inclusive) in respect of the Premises

Premises: Portions of commercial property in Basement 1, Sun City Mall, No. 1811 & 1813 North Guangzhou Avenue, Baiyun District, Guangzhou City, Guangdong Province, China* (中國廣東省廣州市白雲區廣州大道北1811、1813號嘉裕太陽城廣場負一層部分商業物業)

Rent and management fee for extension term:

The total rent (including tax) payable under the Supplemental Lease Agreement in respect of the extension term is approximately RMB77.48 million (exclusive of management fee, other charges, and outgoings). The total management fee (including tax) payable under the Supplemental Lease Agreement during the extension term is approximately RMB24.85 million.

The rent and management fee under the Supplemental Lease Agreement have been determined after arm's length negotiations between AEON GD 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.

In determining the prevailing market rent and management fee for comparison, the Group has conducted market research, such as obtaining lease transactions, quotations from open source of properties of similar usage (i.e. retail stores) within the Baiyun District.

The Group has considered the existing rent and management fees (including the rate of annual increment) under the Existing Lease Agreement in determining the fees payable under the Supplemental Lease Agreement. The monthly per square meter rates for the rent and management fees for the first year of the Extended term under the Supplemental Lease Agreement represents a 5.4% to 9% discount as compared to the last year under the Existing Lease Agreement. With respect to the rate of increment, under the Existing Lease Agreement, the monthly unit rates for the rent and management fees for the last year of the lease term was approximately 3.3x the unit rates for the first year of the existing lease term. On the other hand, the monthly unit rates for the rent and management fees for the last year of the Extended term under the Supplemental Lease Agreement is approximately 1.1x the unit rates for the first year of the Extended term, which is a considerably lower rate of increment.

In addition, the unit rates for rent and management fees payable by AEON GD throughout the Extended term under the Supplemental Lease Agreement are within the range of market rent and management fee levels in the referenced lease transactions considered by the Company. For illustrative purposes, according to statistics for the year ended 31 December 2022 published by the Guangzhou Housing and Urban-Rural Development Bureau* (廣州市住房和城鄉建設局), the monthly unit rates for rent (per square metre) for the shopping mall where the Premises are located were 6.2x and 5.3x the unit rates for rent payable by AEON GD under the Supplemental Lease Agreement with respect to the first and last month of the Extended term, respectively.

For reference purposes, the Group has noted that, the monthly rent for the first year of the Extended term under the Supplemental Lease Agreement is initially approximately RMB602,170[#] and then increases to approximately RMB634,429[#], both of which are lower than the monthly market rent of RMB650,000[#] as at 15 November 2023 as set out in the valuation report.

[#] *Exclusive of value-added tax, building management fees and utilities charges*

The rent and management fee payments will be satisfied by internal resources of the Group.

Renovation & Rent Free: AEON GD will carry out its renovation in the Premises (without closing the entire Premises altogether) within 2 years from the date of the Supplemental Lease Agreement. The renovation proposal and its details shall be mutually agreed to by the parties. The Landlord agrees to grant AEON GD a rental free renovation period of 2 months from March 2025 to April 2025 in the total sum of approximately RMB1.4 million which will not be affected by the commencement or completion date of the renovation work. During renovation, AEON GD doesn't need to pay rent but is responsible for the management fees and other outgoing. Should renovation work be not commenced within two years, AEON GD shall fully refund to Landlord the rental free in respect of the rent-free period enjoyed;

Early Termination:	After 72 months from 23 January 2025, i.e. after 23 January 2031, AEON GD shall be entitled to give six months' notice to the Landlord to terminate the lease without any compensation to the Landlord provided that AEON GD shall not have committed any breach of the provisions of the lease.
Deposit:	In the sum of RMB1.25 million and by way of bank guarantee to be submitted within 60 days after signing of the Supplemental Lease Agreement
Freight elevators, escalator and travelator:	Prior to 23 January 2025, the Landlord shall at its own costs conduct one full scope inspection and maintenance service to the two freight elevators, escalator and travelator designated for the exclusive use by AEON GD to ensure that these facilities are operating properly throughout the extended term.
Additional signages:	The Landlord agrees to convert a certain space into a wall structure on or before 1 March 2024 or as otherwise agreed upon by both parties so that AEON GD may install its light-emitting logo or signage, which details shall be submitted to the Landlord for approval in advance.
Other terms:	The parties have agreed to other lease-operational terms relating to, among others, entrance to the Premises, responsibilities for merchandise/service provided, upkeeping of facilities installed, advance notice on suspension or change of business hours, interruption of others, abatement of rents, warranty and compensations and late payment of fees.

INFORMATION ON 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 property investment, development, leasing and agency services.

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 Third Parties independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL LEASE 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.

AEON GD has been operating its retail businesses in the Existing Premise since 23 January 2010 under the Existing Lease Agreement. The Partial Surrender of the commercial property on the Ground Floor of the Existing Premises for the reminder term of the Existing Lease Agreement would lead to a decrease in the total lease area and in turn a reduction in the scale of the business operation in the Premises. However, the Partial Surrender is expected to allow AEON GD to enhance its operation efficacy in the Premises (by streamlining and consolidating the Group's efforts on parts of the retail store/business with better historical performance) and would have no material effect on the overall operation of the Company's retail business. As the Existing Lease Agreement will be terminated on 22 January 2025, AEON GD and the Landlord have entered into the Supplemental Lease Agreement to extend and modify the terms of the Existing Lease Agreement.

The terms of the Supplemental Lease Agreement, 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 Agreements. The entering into of the Supplemental Lease Agreement is (i) necessary for the operation of the retail businesses of the Group and (ii) in the ordinary and usual course of business of the Group. Therefore, the Board considers that the terms of the Supplemental Lease Agreement (and the transactions contemplated thereunder) are on normal commercial terms and are fair and reasonable and the entering into of the Supplemental Lease Agreement (and the transactions contemplated thereunder) is in ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION CONTEMPLATED UNDER THE SUPPLEMENTAL LEASE AGREEMENT

In accordance with HKFRS 16 "Leases", the entering into of the Supplemental Lease Agreement as tenant by AEON GD will require the Group to derecognize the right-of-use asset arising from the Partial Surrender and to recognise the additional right-of-use asset arising from the extension of the lease term. 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.

Based on the above accounting treatment, the values of the right-of-use assets derecognized and recognised by the Group under the Supplemental Lease Agreement in respect of the Partial Surrender and the extension of the tenancy term amounted to approximately RMB1.15 million and approximately RMB55.60 million.

As a result, upon entering into of the Supplemental Lease Agreement:

(i) the Group's total consolidated assets are estimated to increase by approximately RMB54.45 million upon (i) derecognition of right-of-use assets due to Partial Surrender of approximately RMB1.15 million and (ii) initial recognition of right-of-use assets due to extension of the tenancy term under the Supplemental Lease Agreement; and

(ii) the Group's total consolidated liabilities are estimated to increase by approximately RMB54.13 million upon (i) reduction of lease liabilities due to Partial Surrender of approximately RMB1.47 million and (ii) initial recognition of lease liability as a result of the extension of tenancy term under the Supplemental Lease Agreement.

As a result of the Partial Surrender, the Group is expected to recognize a one-off gain of approximately RMB0.32 million as a result of the disposal, calculated based on the off-setting of the book value of (i) the lease liabilities (in the amount of approximately RMB1.47 million) and (ii) the right-of-use asset in respect of the Surrendered Portion (in the amount of approximately RMB1.15 million.

The right-of-use asset will be depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, with annual depreciation charges amounting to approximately RMB6.18 million. Interest expenses on the lease liabilities will be recognised at the incremental borrowing rate of the Group, which is estimated at approximately 5.6% per annum, and is expected to amount to approximately RMB15.48 million in aggregate. After the commencement date of the lease, the lease liabilities are adjusted by interest accretion and lease payments. The Group's earnings are expected to experience a decrease due to the aggregate effect of the depreciation charge on the right-of-use asset and the interest expenses on the lease liabilities. Given the gain arising from the Partial Surrender will be one-off and recognized upon execution of the Supplemental Lease Agreement, the Company does not expect the one-off gain to have a material impact on the Group's earnings.

IMPLICATIONS UNDER THE LISTING RULES

In accordance with HKFRS 16 "Leases", the entering into of the Supplemental Lease Agreement as tenant by AEON GD will require the Group to derecognize the right-of-use asset arising from the Partial Surrender and to recognise the additional right-of-use asset arising from the extension of the tenancy term. Therefore, the entering into of the Supplemental Lease Agreement will be regarded both as a disposal and an acquisition of assets by the Group under the Listing Rules. The values of the right-of-use assets derecognized and recognised by the Group under the Supplemental Lease Agreement in respect of the disposal and the acquisition amounted to approximately RMB1.15 million and approximately RMB55.60 million.

Since the Supplemental Lease Agreement involves both a disposal and an acquisition, pursuant to Rule 14.24 of the Listing Rules, the transactions under the Supplemental Lease Agreement are classified by reference to the larger of the disposal or the acquisition. As the highest applicable percentage ratio under the Listing Rules in respect of the disposal of right-of-use asset recognized by the Group pursuant to HKFRS 16 based on the partial surrender is less than 5%, the disposal of right-of-use asset (as a result of the entering into the Supplemental Lease Agreement) does not constitute a notifiable transaction under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio 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 Supplemental Lease Agreement is 25% or more but is less than 100%, the entering into of the Supplemental Lease Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge of the Directors, none of the Shareholders or any of their respective associates has a material interest in the Supplemental Lease Agreement and the transactions contemplated thereunder. As such, 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 Supplemental Lease 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 Latest Practicable Date). As such, the Company is exempted from convening a general meeting to approve the Supplemental Lease Agreement and the transaction contemplated thereunder.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Supplemental Lease Agreement are on normal commercial terms and 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 Supplemental Lease Agreement, the Directors (including the independent non-executive Directors) would recommend the Shareholders to vote in favour of the Supplemental Lease Agreement.

ADDITIONAL INFORMATION

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

By Order of the Board
AEON Stores (Hong Kong) Co., Limited
Isei NAKAGAWA
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023 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 2020:
https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300817.pdf
(page 55 to 123)

annual report of the Company for the year ended 31 December 2021:
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042502014.pdf
(page 57 to 127)

annual report of the Company for the year ended 31 December 2022:
https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0425/2023042501659.pdf
(page 58 to 125)

Interim report of the Company for the six months ended 30 June 2023:
https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0919/2023091900810.pdf
(page 2 to 20)

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2023, 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 30 November 2023, the Group had aggregate outstanding bank guarantees of approximately HK$136.2 million, of which approximately HK$103.7 million is secured by pledged bank deposits and approximately HK$32.5 million is unsecured. None of the above are guaranteed.

Lease liabilities

As at 30 November 2023, the Group had lease liabilities with outstanding principal amount of approximately HK$2,980.4 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 30 November 2023, the Group did not have any debt securities, issued and outstanding, and authorised or otherwise created but unissued, and term loans, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.

3. WORKING CAPITAL STATEMENT

Taking into account the Supplemental Lease Agreement and the financial resources available to the Group, including the internally generated funds, 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 Company's (i) profit warning announcement dated 3 August 2023, (ii) the interim results announcement for the six months ended 30 June 2023 dated 25 August 2023, and (iii) interim report for the six months ended 30 June 2023 published on 19 September 2023, regarding the performance of the Group for the six months ended 30 June 2023 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 2022, 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 2023, the COVID-19 situation remained volatile, and the international political tug-of-war has yet to be eliminated. The global economy has improved but not fully recovered and the pace of recovery in the retail market remained slow. In the face of various uncertainties, the Group continued to adopt flexible operational strategies to maintain market competitiveness.

Hong Kong Operations

The Hong Kong retail market has gradually recovered as the pandemic eased and the border reopened and the number of inbound tourists increased. In June, the value of total retail sales in Hong Kong rose 19.6%[1] year-on-year. Excluding price changes, the provisional estimate of the volume of total retail sales for the month rose 17.5%[1] year-on-year.

1 Source: Census and Statistics Department, The Government of the Hong Kong Special Administrative Region

During the period, the sales performance of tourism-related goods such as jewelry and watches rose sharply, driven by the recovery of the tourism industry and positive consumer sentiment in Hong Kong. However, the performance of the local market remained weak, with no significant improvement in the sales of daily consumables such as food and supermarket products. Following the reopening of the border, there has been an outbound travel frenzy among local customers who had not been able to travel for a long time due to the pandemic, resulting in the continued sluggish performance of the local retail sector.

In order to attract more tourists to Hong Kong, the Hong Kong Government launched the "Hello, Hong Kong!" campaign in February 2023, followed by the "Happy Hong Kong" event in April 2023, launching a comprehensive range of promotions targeting local citizens. Together with the first round of the Consumption Voucher Scheme launched this year to stimulate the retail, catering and other industries, these initiatives boosted local consumption, revitalized the economy, and had a somewhat positive effect on the retail industry.

In the first half of 2023, the Group strengthened its "Made in Hong Kong" product series and launched a large-scale themed promotional event entitled "Welcome To Hong Kong" to provide tourists and local customers with unique products in Hong Kong.

With regard to its small specialty store business, the Group continued its strategic cooperation with Daiso Industries Co., Ltd. ("**DAISO**") to expand its network of small specialty stores in Hong Kong.

In June 2023, the Group opened its second and third "KOMEDA'S Coffee", which originate from Nagoya, Japan, in Tuen Mun and Tsim Sha Tsui, to accelerate the development of AEON Hong Kong's specialty restaurant chain business.

In the first half year, the Group's revenue from its Hong Kong operations decreased by 10.4% to HK$2,102.2 million (2022: HK$2,347.2 million). The loss from the Hong Kong operations decreased to HK$71.6 million (2022: loss of HK$76.1 million).

External geopolitical factors, the unfavorable economic environment in Europe, the high exchange rate of the U.S. dollar and the COVID-19 pandemic have weighed on the factors supporting Hong Kong's economic growth, such as exports, fixed investments and consumption. The persistent rise in domestic prices has discouraged tourists from visiting and spending in Hong Kong. With the frequent visits of Mainland tourists to Hong Kong, the retail market may improve, but the overall economic downturn will inevitably affect consumer sentiment to some extent.

The second round of the 2023 Consumption Voucher Scheme was launched in July 2023. However, with the regularization of the Scheme and the increase in inflationary pressure, the public has become more cautious in their consumption. Therefore, the Group believes that the impact of the Scheme on its sales performance in the third quarter of 2023 will be limited. Spending by Mainland visitors to Hong Kong has not yet returned to pre-pandemic levels. This, coupled with the manpower shortage in the retail industry, will continue to add uncertainties to the Group's operations in the second half of 2023.

To address these challenges, the Group will push ahead with digital transformation to reduce repetitive manual tasks and better deploy human resources. For example, back-end operations can be enhanced to improve work efficiency and effectively control costs by using "Mobile Assistant"/"Employee Operation Assistant". At the same time, it has expanded the application of the Self Payment Machine, "POS Express" and High-Speed Cash Recycler to simplify the daily and back-end work of the stores, and hence improve operational efficiency.

In addition, the Group plans to strengthen its online supermarket initiatives to enhance its competitiveness in the e-commerce arena. By encouraging customers to use the mobile AEON App, the Group will be able to drive online sales and maintain customer loyalty. In the second half of 2023, the Group will launch a delivery service on the "AEON App", aiming to provide customers with a more convenient and satisfactory shopping experience while leveraging online platforms to enhance sales performance.

As for its offline business, the Group will accelerate product reform and broaden differentiation to meet the different needs of customers. It will also further expand its small specialty store network, deepen its strategic cooperation with DAISO, and open pop-up stores in suitable locations to attract more customers and improve business performance.

PRC Operations

In the first half of 2023, with the relaxation of COVID-19 prevention and control policies in the PRC, overall consumption, including retail merchandise and food and beverage, improved compared with the same period last year while the sales of upgraded products grew faster. Among them, the business performance of general merchandise stores ("**GMS**") in prime business districts picked up significantly. However, the sales performance of community-based stores and online retail remained sluggish.

Overall, mass consumption tended to be conservative due to factors such as geopolitical turmoil and uncertain macroeconomic prospects. The national consumer price index (CPI) remained flat at 0.7% year-on-year, reflecting the lack of confidence in the mid- to long-term economic recovery.

In response to the current consumption situation, the Group proactively optimized the product mix of its food division, especially enriching the variety of fruits, vegetables and fresh products, which boosted sales during the period. The Group also expanded the proportion of sales of its private label merchandise, provided more directly imported goods, and reduced the number of intermediaries in order to control costs effectively.

During the first half of 2023, the Group continued to adjust its operating network by closing the AEON supermarket at Port City, Guangzhou in January 2023 and the AEON GMS at Xinzhou, Shenzhen in February 2023 to reduce the Group's financial burden.

The revenue from the PRC business in the first half of 2023 decreased by 10.4% to HK$2,419.6 million (2022: HK$2,701.5 million). The loss of the PRC business decreased to HK$15.4 million (2022: loss of HK$85.6 million).

Due to the geopolitical instability and uncertain economic outlook, the Group does not expect any significant change in customers' consumption pattern in the short term. Although the retail market is gradually recovering, the pace of rebound will continue to be slow.

In the face of an uncertain economic outlook, the Group will continue to adopt a prudent approach and focus on developing its own business and controlling costs in order to achieve continuous improvement in performance. In terms of products, the Group will accelerate product reform and broaden differentiation to meet the post-pandemic shopping needs of customers. It will also capitalize on the strengths of its global supply chain to increase the proportion of proprietary brands and boost profitability.

As for the store network, the Group has opened one supermarket in Guangzhou in August 2023 and expects to open one more supermarket in Zhuhai in September 2023 and renovate certain stores as scheduled to enhance customers' shopping experience. It will also continue to review and optimize its existing store layout to improve operational efficiency and business performance.

Financial review

In the first half of the year 2023, the Group's revenue decreased by 10.4% year-on-year to HK$4,521.8 million (2022: HK$5,048.7 million). Gross profit margin improved by 0.5 percentage points to 28.8% (2022: 28.3%).

As for other income, no government grants were received from the Hong Kong government and municipal governments in Mainland China in the period (2022: HK$19.3 million) resulted in an overall decrease of 9.0% as compared with last year.

For operating expenses during the period under review, the Group's staff cost decreased by 10.7% and its ratio to revenue decreased to 10.9% (2022: 11.0%). Expenses related to leases decreased by 8.2% and the ratio of expenses to revenue increased to 11.6% (2022: 11.3%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses (including building management fee), utility expenses, administrative expenses and other expenses, decreased by 5.6% year-on-year and the ratio of other expenses to revenue was 11.7% (2022: 11.1%).

Included in other gains and losses, amongst others, was exchange gain of HK$4.4 million (2022: exchange loss of HK$11.9 million). In addition, there was no impairment loss recognized in respect of right-of-use assets (2022: HK$7.7 million) and in respect of property, plant and equipment (2022: HK$28.8 million) in the review period.

Due to the above changes, loss attributable to owners of the Company for the period under review was HK$78.2 million (2022: loss of HK$144.6 million), representing a decrease of HK$66.4 million.

The Group's adjusted EBITDA (which is defined by EBITDA less interest on lease liabilities and repayment of lease liabilities) for the period was loss HK$55.2 million (2022: loss HK$26.7 million), loss increased by HK$28.5 million.

The Board declared an interim dividend of HK$0.02 (2022: HK$0.03) per share for the six months ended 30 June 2023. In the recommendation or declaration of dividends, the Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant.

During the six months ended 30 June 2023, capital expenditure for opening new stores and store renovation in Hong Kong and Mainland China and the upgrade of information technology systems amounted to HK$57.5 million.

The Group also entered into new lease agreements and lease modifications in the review period and recognized additional HK$77.3 million (2022: HK$64.8 million) of right-of-use assets and HK$74.4 million (2022: HK$66.9 million) lease liabilities.

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK$1,266.1 million as at 30 June 2023 (31 December 2022: HK$1,423.4 million). The Group had no bank borrowing and therefore gearing ratio (which is defined by dividing bank borrowings to equity) was not applicable. The Group had sufficient internal resources to finance future business operations.

The Exchange rate fluctuation had no material impact on the Group's retail business during the six months ended 30 June 2023 as less than 5% of the Group's total purchases were settled in foreign currencies other than the functional currencies in Hong Kong and in the PRC. The Group did not have a foreign currency hedging policy and will consider entering into hedging instruments should the need arises.

The Group's capital structure comprises wholly of equity capital without any bank borrowing throughout the six months ended 30 June 2023.

As at 30 June 2023, deposits of HK$124.2 million (31 December 2022: HK$23.7 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$6.7 million (31 December 2022: HK$6.7 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 30 June 2023 amounted to HK$3,077.0 million (31 December 2022: HK$3,481.3 million), of which HK$795.4 million (31 December 2022: HK$827.0 million) is payable within one year. The Group's lease liabilities to equity ratio as at 30 June 2023 (defined as the total lease liabilities divided by total equity) was 14,628% (31 December 2022: 3,417%).

As at 30 June 2023, the Group's current liabilities exceeded its current assets by HK$662.5 million (31 December 2022: net current liabilities of HK$615.8 million). The directors considered that the Group has sufficient financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

The Group planned to invest approximately HK$56.2 million in the second half year of 2023 for new store openings, store renovations and digital transformation, which will be financed by internal resources.

Human resources

As at 30 June 2023, the Group had approximately 5,400 full-time and 3,900 part-time employees in Hong Kong and Mainland China. Under the "Everything we do, we do for our customers" credo, and 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 educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build AEON into a brand that benefits all customers.

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of the rental value of the Property, to be leased by the Group, as at 15 November 2023.

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

15 January 2024

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

Dear Sirs,

Re: SUN CITY MALL Store, Portions of Basement Level 1, SUN CITY MALL, Nos. 1811 & 1813 Guangzhou Avenue North, Baiyun District, Guangzhou, Guangdong Province, the PRC.
(位於中華人民共和國廣東省廣州市白雲區廣州大道北1811、1813號嘉裕太陽城廣場地下一層部分太陽城店) (the "Property")

INSTRUCTIONS, PURPOSE & VALUATION DATE

In accordance with the instructions of AEON Stores (Hong Kong) Co., Limited (the "**Company**") for us to provide our opinion of the market rent of the Property to be leased by the Company or its subsidiary (collectively the "**Group**") in the People's Republic of China (the "**PRC**") (as more particularly described in the attached valuation report), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing the Company with our opinion of market rent of the Property as at 15 November 2023 (the "**Valuation Date**") for regulatory circular purpose.

VALUATION BASIS

Our valuation of the Property represent its market rent which in accordance with HKIS Valuation Standards 2020 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".

Except otherwise stated, we confirm that the valuation is undertaken in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors.

VALUATION ASSUMPTION

Our valuation of the Property excludes an estimated rent inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special consideration 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 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 valuation for any charges, mortgages or amounts owing on the Property 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 onerous nature which could affect its market rent.

METHOD OF VALUATION

In valuing the Property, we have adopted Market Comparison Method which is universally considered the most acceptable method for assessing the rent of most forms of real estate. This involves the analysis of recent market rental evidence 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.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals or identification of the Property, tenancy information, 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 to us and are therefore only approximation. 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.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration in English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

TITLE INVESTIGATION

We have been provided with the copies of real estate title certificate relating to the Property by the Company. 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. Kelly Wu, with 4 years of experience in property valuation in the PRC, of our Guangzhou office inspected the exterior and, wherever possible, the interior of the Property on 30 October 2023. 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 rot, infestation or any other structural defects. No test was carried out on any of the services.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor area of the Property and we have assumed that the areas shown on the copies of documents handed to us are correct.

CURRENCY

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

OTHER DISCLOSURE

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the 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 our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We enclose herewith our valuation report for your attention.

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

Note: Ms. Grace Lam is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor (General Practice). Ms. Lam has over 30 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries. Ms. Lam has sufficient current national knowledge of the market, and the skills and understanding to undertake the valuation competently.

VALUATION REPORT

Property to be leased by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market rent in existing state as at 15 November 2023
SUN CITY MALL Store, Portions of Basement Level 1, SUN CITY MALL, Nos. 1811 & 1813 Guangzhou Avenue North, Baiyun District, Guangzhou, Guangdong Province, the PRC. (位於中華人民共和國廣東省廣州市白雲區廣州大道北1811、1813號嘉裕太陽城廣場地下一層部分太陽城店)	SUN CITY MALL is located at Baiyun District, which is a bustling area of Guangzhou. It is a comprehensive shopping mall comprising 4 storeys. SUN CITY MALL was completed in about 2010, located at Nanfang Hospital commercial hub. Nearby developments mainly consist of residential and commercial projects. And it is served by public bus routes. The Property comprises portions of Basement Level 1 of Sun City Mall Store in the SUN CITY MALL. The Property is subject to an existing tenancy of 15 years due to expire on 22 January 2025 of a larger portion of Sun City Mall Store. The landlord and the tenant (the Company) have entered into a supplemental lease agreement on 29 December 2023 to renew the tenancy for a relatively smaller portion as described below for about 10 years expiring on 22 January 2034. Pursuant to the supplemental lease agreement provided by the Company, the total lettable area to be occupied is approximately 11,720.80 sq.m.	As at the Valuation Date, the Property was leased by the Company as an AEON Store.	RMB650,000 (RENMINBI SIX HUNDRED AND FIFTY THOUSAND per month, exclusive of value-added tax, building management fees and utilities charges for a period of 10 years commencing on the Valuation Date *(see Note 1)*

Notes:

(1) The rental valuation is conducted on the assumption that the Property is let for a term of 10 years from the valuation date without varying rent, turnover rent or rental incentive.

(2) We have been provided by the Group with a supplemental lease agreement with salient terms below:-

Landlord	:	Guangzhou Jiayu Real Estate Development Co., Ltd 廣州市嘉裕房地產發展有限公司
Tenant	:	Guangdong AEON Teem Co., Ltd. 廣東永旺天河城商業有限公司

The Property	:	Portions of Basement Level 1, SUN CITY MALL, Nos. 1811 & 1813 Guangzhou Avenue North, Baiyun District, Guangzhou, Guangdong Province, the PRC (中華人民共和國廣東省廣州市白雲區廣州大道北1811、1813號嘉裕太陽城廣場地下一層部分)
Lettable Area	:	11,720.80 sq.m.
Lease Term	:	From 1 March 2024 to 22 January 2034
Monthly Rent*	:	RMB602,170 from 1 March 2024 to 28 February 2025 RMB634,429 from 1 March 2025 to 22 January 2027 RMB666,688 from 23 January 2027 to 22 January 2031 RMB698,947 from 23 January 2031 to 22 January 2034

* Exclusive of value-added tax, building management fees and utilities charges

(3) According to Real Estate Title Certificate No. 1040018409 dated 11 February 2010, the land use rights of a 3-storey building with a total gross floor area of 10,053.64 sq.m. and a site area of 25,169.78 sq.m. have been vested in 廣州市嘉裕房地產發展有限公司 for a land use term of 40 years from 20 January 2010 for wholesale and retail commercial use.

(4) We have only been provided by the Company with a copy of Real Estate Title Certificate in relation to the current title to the Property as well as development approval documents but not a PRC property legal opinion. 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 State-owned Land Use Rights Certificate and development approval documents. We have assumed that the copies of relevant documents provided by the Company are true and accurate.

(5) 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.

(6) We have adopted Market Comparison Method by identifying relevant rental comparables in the nearby developments. Comparable properties are selected based on the following criteria: (i) comparable properties are located in Guangzhou; (ii) comparable properties are of larger size (no less than 1,000 sq.m.); and (iii) the nature of the comparable properties is similar to the Property (i.e. leased to a single anchor brand similar to AEON). The rental comparables identified by us are exhaustive in terms of the above criteria.

We have identified three relevant rental comparables; the unit rents of these comparable properties range between about RMB48.9 per sq.m. per month on Basement Level 2 and RMB67.0 per sq.m. per month on Basement Level 2 to Level 1.

Details of the selected rental comparables are listed below:

Rental Comparable	**Leased Area** *(sq.m.)*	**Unit Rent** *(RMB/sq.m./month)*
1. Basement Level 1 of a 6-storey shopping mall in Panyu District	15,420	60.8
2. Basement Level 2 to Level 1 of a 10-storey shopping mall in Baiyun District	16,332	67.0
3. Level 2 of a 5-storey shopping mall in Haizhu District	1,479	48.9

The rental comparables are from our internal proprietary database, hence building names are not disclosed as restricted by confidential agreements to third parties.

In arriving at the key assumptions, appropriate adjustments and analysis are considered to reflect the differences in several aspects including but not limited to location, size, floor and other physical characteristics between the Property and the comparable properties. The general basis of adjustment is that if the Property is better than the comparable properties, an upward adjustment is made. Alternatively, if the Property is inferior or less desirable than the comparable properties, a downward adjustment is made.

The adjustments made to arrive at our valuation include but not limited to:

Adjustment	**Range**
Location & Environment	-2% to 0%
Transportation & Accessibility	-2% to 0%
Size	-5% to +3%
Floor Level	-8% to +5%
Age	-4% to 0%

In terms of location & environment and transportation & accessibility, Comparables 1 and 2 are better than the Property, an overall downward adjustment hence applied. Comparable 3 is in a similar position as the Property.

Upward adjustment applied to Comparables 1 and 2 as they are larger in size compared to the Property, and downward adjustment applied to Comparable 3 as it is much smaller in size compared to the Property.

Upward floor adjustment applied to Comparable 2 whilst downward floor adjustment applied to Comparable 3 due to their respective proximities to Level 1 compared to the Property. No floor adjustment applied to Comparable 1 as they are on the same level.

In terms of building age, the Property is inferior to Comparables 1 and 3, respective downward adjustments are applied.

We have assigned equal weighting to the three comparables after due adjustments. As a result, we have adopted a unit market rent of RMB55.8 per sq.m. per month for a total lettable area of 11,720.80 sq.m., equivalent to a sum of approximately RMB650,000 per month excluding value-added tax, building management fees and utilities charges.

Based on our independent adjustment of the rental comparables as mentioned above, we are of the view that our opinion of the market rent of the Property to be fair and reasonable.

(7) Assuming the tenancy of the Property commences on the Valuation Date and is freely disposable and transferable, the capitalised value of the market rent under this 10-year tenancy would be in the range of RMB59,000,000 (RENMINBI FIFTY NINE MILLION). We have adopted a capitalisation rate of 5.25%, which 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 capitalisation rate adopted is reasonable and in line with the market norm having regard to the analysed yields of transactions of the relevant use type.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS 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
NAKAGAWA Isei	15,000	0.00577%
NAGASHIMA Takenori	12,000	0.00462%
HISANAGA Shinya	30,000	0.01154%

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

Name of Director	Number of shares held as personal interests *(Note)*	Approximate percentage of interests
NAKAGAWA Isei	2,400	0.00028%
HISANAGA Shinya	2,030	0.00023%
FUKUDA Makoto	1,000	0.00011%
GOTO Toshiya	6,300	0.00072%

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

(B) Substantial Shareholders' interests

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

Name of substantial shareholder	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares
AEON Co	157,536,000 *(notes)*	60.59%

Notes: These shares are held as to 155,760,000 shares by AEON Co and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("**ACS**"). ACS is owned by AEON Co as to 281,138,000 shares representing 67.13% of the issued share capital of ACS. AEON Co is deemed to be interested in the 1,776,000 shares owned by ACS.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDER

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

	Name of substantial shareholder of the Company	Position in the substantial shareholder of the Company
FUKUDA Makoto	AEON Co	General Manager of Finance Department
GOTO Toshiya	AEON Co	Executive Officer

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which is not 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 competes, or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

6. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date and which was significant in relation to the business of the Group; and none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

8. MATERIAL 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. EXPERT AND CONSENT

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 2022, 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 head office and principal place of business of the Company is at Units 07-11, 26/F, CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong.

(3) The share registrar of the Company is Tricor Secretaries Limited at 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(4) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.aeonstores.com.hk) for a period of 14 days from the date of this Circular:

(a) the Supplemental Lease Agreement;

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

(c) the written consent referred to in the section headed "Expert and Consent" of this appendix.