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AEON STORES (HONG KONG) CO., LIMITED

永旺（香港）百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS IN RELATION TO PRODUCT DEVELOPMENT AGREEMENT

The Board is pleased to announce that on 29 May 2020, ASC (a wholly-owned subsidiary of the Company) and ATV China entered into the Product Development Agreement which shall be effective from 29 May 2020 to 31 December 2022.

As at the date of this announcement, ATV China is a connected person of the Company by virtue of it being a subsidiary of AEON Co, the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Product Development Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Annual Caps exceed 0.1% but are below 5%, the Product Development Agreement and the transactions contemplated thereunder are subject to annual review and the applicable disclosure requirements under Chapter 14A of the Listing Rules but are exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. BACKGROUND

The Board is pleased to announce that on 29 May 2020, ASC (a wholly-owned subsidiary of the Company) and ATV China entered into the Product Development Agreement which shall be effective from 29 May 2020 to 31 December 2022.

2. PRODUCT DEVELOPMENT AGREEMENT

Background of the transactions

ATV China is a licensee of the "TopValu" trademark and is responsible for engaging manufacturers to produce products bearing the "TopValu" trademark as well as quality control, sales, promotion and management of such products. ATV China is also engaged in the supply and sales of such products to Other Entities (including certain members of AEON Group) and previously including members of the Group.

Since January 2019, ASC has been purchasing products bearing the “TopValu” trademark directly from manufacturers approved by ATV China. At the same time, ASC has also set up its own team to design and develop the Relevant ATV Products catering for the Group’s needs and sales market. Subject to ATV China’s approval of the Relevant ATV Products, ASC would directly purchase the Relevant ATV Products as manufactured by manufacturers approved by ATV China for sale in its stores in the PRC or for onward sales to GDA (a 65%-owned subsidiary of the Company).

ATV China is entitled to purchase from its approved manufacturers the Relevant ATV Products for its onward sales to Other Entities (including certain members of the AEON Group). In recognition of ASC’s efforts in designing and developing the Relevant ATV Products, ATV China has agreed to compensate ASC by paying ASC certain product development fees, and accordingly, in April 2020, ASC and ATV China entered into the 2019 Product Development Transaction Agreement, pursuant to which ATV China paid a lump sum fee of RMB2,280,998.50 to ASC, which represents 4% of the total purchase price for the Relevant ATV Products purchased by ATV China from the manufacturers in 2019. Subsequently, on 29 May 2020, ASC and ATV China entered into the Product Development Agreement to set out the terms of the product development fees payable by ATV China in respect of the Relevant ATV Products during the period from 1 January 2020 to 31 December 2022.

The principal terms of the Product Development Agreement are as follow:

Product Design and Development

With effect from 29 May 2020, ASC shall be engaged by ATV China to conduct the following:

- (a) market research on, and design and development of, the Relevant ATV Products;
- (b) preparation of manual for manufacturers on product design, product formula, product standard and relevant computer software in respect of the Relevant ATV Products;
- (c) determination on product samples for the Relevant ATV Products; and
- (d) other business relating to development of the Relevant ATV Products as shall be agreed by ASC and ATV China.

ATV China shall have the right to engage manufacturers to produce and purchase the Relevant ATV Products from the manufacturers according to its needs.

Fees

As consideration for ASC’s design and development of the Relevant ATV Products, ATV China shall pay the following fees to ASC:

- (a) a lump sum fee of RMB859,869.85 payable within 5 working days after signing of the Product Development Agreement (“**Lump Sum Fee**”), which represents 4% of the total purchase price (excluding tax) paid by ATV China for the purchase of the Relevant ATV Products during the period from 1 January to 30 April 2020; and

- (b) monthly fee in an amount equal to 4% of the total purchase price (excluding tax) paid by ATV China for the purchase of the Relevant ATV Products in the preceding month, payable each month during the period from 1 May 2020 to 31 December 2022.

Pricing

The Lump Sum Fee and monthly fee as set out above represent 4% of the total purchase price (excluding tax) paid by ATV China for the purchase of Relevant ATV Products during the period from 1 January to 30 April 2020 and during each month from 1 May 2020 to 31 December 2022, respectively. It is the same rate payable by GDA (a 65% owned subsidiary of the Company) to ASC as consideration for ASC's design and development of the Relevant ATV Products and was determined taking into account the proportion of respective benefits enjoyed by ATV China and GDA and corresponding consideration that shall be paid by ATV China and GDA, respectively, for the efforts of ASC in the design and development of the Relevant ATV Products.

3. ANNUAL CAPS

The Directors estimate that the maximum aggregate fees to be received by ASC from ATV China on an annual basis in respect of the transactions under the Product Development Agreement will not exceed the annual caps below ("**Annual Caps**"):

Financial Year/Period	Annual Caps
1 January 2020 to 31 December 2020	RMB6.4 million (" 2020 Cap ")
1 January 2021 to 31 December 2021	RMB6.0 million (" 2021 Cap ")
1 January 2022 to 31 December 2022	RMB7.5 million (" 2022 Cap ")

The 2020 Cap includes a lump sum fee of RMB2,280,998.50 paid by ATV China to ASC in April 2020 pursuant to the 2019 Product Development Transaction Agreement and the anticipated fees to be received by ASC pursuant to the Product Development Agreement in respect of ATV China's purchase of the Relevant ATV Products during the year ending 31 December 2020. The 2021 Cap and 2022 Cap were arrived at taking into account the historical amount of purchase of the Relevant ATV Products made by ATV China in 2019 and the projected increase of purchase of the Relevant ATV Products to be made by ATV China in each of the years ending 31 December 2021 and 31 December 2022, respectively.

4. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors consider that the "TopValu" trademarks, which are well known in Hong Kong and the PRC, are essential to the operations and success of the Group. Leveraging on the Group's experience in procurement, as well as sales and marketing of "TopValu" brand food products and non-food supermarket products in its stores in Hong Kong and the PRC over the past years, since January 2019, ASC has set up its own team for the design and development of food products and non-food supermarket products bearing the "TopValu" trademark based on the product development ideologies of the "TopValu" brand. This enriches ASC's merchandises variety and differentiates ASC from its competitors.

Although the Relevant ATV Products are developed by ASC for its own business needs and purposes, the same are also available for purchase by ATV China. The Directors consider that, by entering into the Product Development Agreement, the Group would be able to generate income from the same development efforts of ASC and hence the entering into of the Product Development Agreement would bring additional benefits to the Group.

The Directors, including all the independent non-executive Directors, are of the view that (i) the Product Development Agreement and the transactions contemplated thereunder are on normal commercial terms; (ii) the terms of the Product Development Agreement and the transactions contemplated thereunder, together with the Annual Caps, are fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iii) the Product Development Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of the Company's business.

At a Board meeting convened to consider the Product Development Agreement, Ms. Yuki Habu, Mr. Isei Nakagawa, Mr. Takenori Nagashima and Mr. Akinori Yamashita were regarded as potentially having a material interest in the Product Development Agreement and accordingly abstained from voting on the relevant resolutions.

5. LISTING RULES IMPLICATIONS

As at the date of this announcement, ATV China is a connected person of the Company by virtue of it being a subsidiary of AEON Co, the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Product Development Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Annual Caps exceed 0.1% but are below 5%, the Product Development Agreement and the transactions contemplated thereunder are subject to annual review and the applicable disclosure requirements under Chapter 14A of the Listing Rules but are exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

6. INFORMATION ABOUT THE PARTIES

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

ATV China is a licensee of the "TopValu" trademark owned by AEON Group and is engaged in the business of selection of manufacturers for producing products bearing the "TopValu" trademark, and quality control, sales, promotion and management of such products.

7. DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise.

“AEON Co”	AEON Co., Ltd., a company incorporated in Japan with limited liability, the issued shares of which are listed on the Tokyo Stock Exchange
“AEON Group”	AEON Co and its subsidiaries (excluding members of the Group)
“ASC”	AEON South China Co., Ltd., a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“ATV China”	AEON TopValu (China) Co., Ltd. (永旺特慧優國際貿易(上海)有限公司), a company incorporated in the PRC and a subsidiary of AEON Co
“Board”	the board of Directors
“Company”	AEON Stores (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“continuing connected transactions”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“GDA”	Guangdong AEON Teem Co., Ltd., a company incorporated in the PRC and a 65%-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Other Entities”	business entities which are not members of the Group
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan

“Product Development Agreement”	the agreement dated 29 May 2020 entered into between ASC and ATV China in respect of the design and development of the Relevant ATV Products
“Relevant ATV Products”	food products and non-food supermarket products bearing the “TopValu” trademark, which are designed and developed by ASC
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“2019 Product Development Transaction Agreement”	the agreement dated 18 April 2020 entered into by ASC and ATV China for the design and development fee payable by ATV China in respect of the Relevant ATV Products purchased by ATV China in 2019

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

Hong Kong, 29 May 2020

As at the date of this announcement, the Executive Directors are Mr. Isei Nakagawa, Mr. Chak Kam Yuen, Mr. Lau Chi Sum Sam, Mr. Takenori Nagashima and Mr. Shinya Hisanaga; the Non-executive Directors are Ms. Yuki Habu and Mr. Akinori Yamashita; and the Independent Non-executive Directors are Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty, Mr. Chow Chi Tong and Mr. Hideto Mizuno.