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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 TENANCY AGREEMENT

The Board is pleased to announce that on 17 August 2020, AEON Mall as lessor and AEON GD as lessee entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the Premises to AEON GD for a term of twenty (20) years from the Handover Date.

As at the date of this announcement, AEON GD was held as to 65% by the Company. AEON Mall is an indirect subsidiary of AEON Co, the controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction 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 in respect of the Tenancy Agreement exceed 0.1% but are below 5%, the transactions thereunder are subject to annual review and the applicable disclosure requirements under chapter 14A of the Listing Rules and are exempt from shareholders' approval requirements under chapter 14A of the Listing Rules.

1. INTRODUCTION

AEON Mall (GD) as tenant and the Building Developer as landlord entered into a tenancy agreement in respect of the Shopping Centre for a term of twenty (20) years, according to which AEON Mall is entitled to exercise all rights and obligations of AEON Mall (GD) and to sublease the Shopping Centre.

The Board is pleased to announce that on 17 August 2020, AEON Mall as lessor and AEON GD as lessee entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease a portion of the Shopping Centre (i.e. the Premises) to AEON GD for a term of twenty (20) years from the Handover Date.

2. THE TENANCY AGREEMENT

- Date : 17 August 2020
- Parties : AEON Mall as lessor and AEON GD as lessee
- Premises : 中國廣東省廣州市增城區永寧街香山大道2號，現暫定名稱為永旺夢樂城廣州增城購物中心1層，自編1000房號 (English translation for reference: Unit 1000 (to be designated) First Floor, AEON Mall — Guangzhou Zengcheng Shopping Centre, No. 2 Xiangshan Road, Yongning Street, Zengcheng district, Guangzhou City, Guangdong Province, China)
- Gross Floor Area : Aggregated gross floor area of 5,277.12 square metres
- Use : Commercial use such as department store, supermarket, restaurants, recreational facilities and services
- Term : Twenty (20) years from the Handover Date
- Termination and Renewal : During the first ninety six months from business commencement, both parties may not terminate the Tenancy Agreement but AEON GD may terminate the Tenancy Agreement by providing AEON Mall with six months' prior written notice and a compensation in the sum being six times of the average monthly rental paid in the last twelve months prior to termination. After the first ninety six months from the business commencement, AEON GD may at any time terminate the Tenancy Agreement by providing AEON Mall with six months' prior notice without any compensation.
- AEON GD may renew the Tenancy Agreement by providing AEON Mall with written notice at least six months prior to the expiration of the Tenancy Agreement, subject to AEON Mall having obtained its right to sub-lease, parties' negotiation on the renewal terms and conditions and compliance with the Listing Rules.
- Rent : Rent (inclusive of VAT) payable by AEON GD shall be calculated according to the following rates of AEON GD's direct sales turnover for respective months (after expiry of rent free period mentioned above) set out below:

Month	Rate of direct sale turnover
1st-4th	1.8%
5th-36th	2.0%
37th-72th	3.4%
181st-240th	3.5%

AEON GD's direct sales turnover refers to the actual sales proceeds (after deduction of taxes on sales proceeds) of AEON GD derived from its direct sale operations at the Premises (not including parts of the Premises sublet to other parties, if any, and the rent, sales proceeds and other income generated thereat) set out in the Tenancy Agreement. AEON GD shall within 5 days from end of each month provide AEON Mall with a signed sales report of its direct sales proceeds conducted and the rent payable in the month ended. Rent shall be payable within 10 days from end of each month.

The rent payable under the Tenancy Agreement has been determined with reference to the prevailing market price for comparable premises in the area at the relevant time.

- Management Fees : Monthly management fee in respect of the Premises payable by AEON GD to AEON Mall at a fixed rate of RMB10 per square metre which, subject to mutual consent, may be reviewed every three (3) years during the term of the Tenancy Agreement.
- Utilities expenses : Utilities expenses (including water, electricity and air conditioning) shall be payable by AEON GD based on its actual usage.
- Other fees : AEON GD shall pay AEON Mall such other rent, usage charges and fees in relation to any provisional showrooms, storage areas, services, other facilities and special equipment that AEON GD may from time to time rent or employ with the consent of AEON Mall (on the basis of actual usage).
- Renovation period : a period of not less than 180 days from Handover Date up to the business commencement date of the Shopping Centre during which AEON GD shall not be required to pay rent and management fee but shall bear its own utilities expenses; management fee is payable if AEON GD commences business earlier than the Shopping Centre.
- Rent free period : Rent free period of four (4) months from the expiry of the Renovation period, during which AEON GD shall not be required to pay rent and management fee but shall bear its own utilities expenses.
- Deposit : A deposit of RMB440,000 is payable by AEON GD to AEON Mall within fifteen (15) days upon signing of the Tenancy Agreement. Such deposit shall be refunded to AEON GD upon expiry or termination of the Tenancy Agreement, provided that there is no breach of the Tenancy Agreement by AEON GD.

3. OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

According to Rule 14A.52 of the Listing Rules, the duration of the Tenancy Agreement must not exceed three years except in special circumstances where the nature of the transaction requires the Tenancy Agreement to be of a duration which is longer than three years. Accordingly, Somerley has been appointed to explain why a longer period for the Tenancy Agreement is required and to confirm that it is normal business practice for agreements of such type to be of such duration.

In arriving at its opinion, Somerley has relied on the information provided by the Company, including, but not limited to, this announcement, the draft Tenancy Agreement and the comparable agreements entered into between the Group and independent third parties. In considering whether it is normal business practice for an agreement of a similar nature to the Tenancy Agreement to have a term of such duration, Somerley has reviewed three lease agreements entered into by the Group on one hand and independent third parties on the other in respect of the properties located in the PRC with similar uses and noted that each of them has a lease term of 20 years. In addition, Somerley also identified and reviewed 55 comparable transactions involving the leasing of properties in the PRC for operation of retail stores, department stores or hypermarkets (the “**Comparable Transactions**”). The Comparable Transactions selected by Somerley are based on the following criteria: (i) one of the parties to each of such transactions involves a company listed on the Stock Exchange; (ii) such transactions are publicly announced by way of announcement, circular, prospectus or annual report pursuant to the Listing Rules; and (iii) such transactions relating to the leasing of properties as retail stores, hypermarkets or department stores by their operators remain effective as at the date of this announcement. Somerley noted that the terms of the Comparable Transactions range from 3 to 25 years, and 43 of which have a lease term exceeding 3 years, and out of which at least 16 have a lease term of 20 years or above.

On the basis of the above as well as the information provided by the Company, Somerley is of the view that:

- (i) the duration of the Tenancy Agreement is the same as those entered into by the Group with independent third parties and the uses of the properties are the same;
- (ii) the duration of the Tenancy Agreement falls within the range of the tenures of the Comparable Transactions;
- (iii) the long-term nature of the Tenancy Agreement will enable the Group to secure a strategic and prime location in a highly competitive retail industry in the PRC;
- (iv) the long-term nature of the Tenancy Agreement will enable the Group to prevent unnecessary cost, effort, time and interruption of business caused by the relocation in the case of short-term leases;
- (v) the long-term nature of the Tenancy Agreement will prevent the recurrence of initial investment costs such as initial set-up costs and interior decoration in the case of short-term leases;

- (vi) it takes time to build up relationships between the Company and its customers of the stores (as the case may be) in any given location. Any relocation of the above may adversely affect the customer base and the business performance of the relocated market or store. The long-term nature of the Tenancy Agreement may enhance customers' loyalty and help maintain stale sales revenues of the Group; and
- (vii) the 20-year tenure under the Tenancy Agreement is a normal commercial term for a transaction of this nature and it is normal business practice for an agreement of this type to be of such duration.

4. THE ANNUAL CAPS

It is estimated that the total amounts payable by AEON GD to AEON Mall under the Tenancy Agreement will not exceed the annual caps (the "Annual Caps") set out below:

Financial Year	(1 Jan — 31 Dec)	2020¹	2021	2022	2023	2024	2025	2026
Annual Caps	(RMB millions)	0.2	1.5	2.9	3.4	3.9	4.2	4.3
Financial Year	(1 Jan — 31 Dec)	2027	2028	2029	2030	2031	2032	2033
Annual Caps	(RMB millions)	6.1	7.1	7.3	7.5	7.7	7.9	8.1
Financial Year	(1 Jan — 31 Dec)	2034	2035	2036	2037	2038	2039	2040²
Annual Caps	(RMB millions)	8.3	8.5	8.9	9.2	9.5	9.8	7.5

Note: 1 from Handover date to end of year;
2 from 1 Jan to expiry of Tenancy Agreement

The annual caps have been calculated based on the estimated rent payable according to the AEON GD's estimation of the sales turnover, the management fees, utilities expenses and other fees payable by AEON GD under the Tenancy Agreement and the growth of business of AEON GD, with reference to the performance of other stores of the Group, such other rent, usage charges and fees payable in relation to any provisional showrooms, storage areas, services, other facilities and special equipment that AEON GD may from time to time rent or employ with the consent of AEON Mall (on the basis of actual usage) and taking into account a certain margin of allowances.

5. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Company considers that the location of the Premises is suitable for the opening of a new AEON store, which at the same time expands the Group's store network and coverage as a whole. The Company is also of the view that with AEON Mall being a head tenant of the Shopping Centre, both the Premises and other parts of the Shopping Centre will be operated in accordance with similar AEON standards. This should generate an integrated shopping environment and as a result, provide excellent AEON services to the Group's customers and improve customer satisfaction.

The terms of the Tenancy Agreement are arrived at after arm's length negotiations between AEON Mall and AEON GD. Based on (i) the abovementioned views of Somerley on the reasonableness of the duration of the Tenancy Agreement and (ii) the commercial reasons set out above, the Directors (including the independent non-executive Directors) are of the opinion that:

- (1) the transactions under the Tenancy Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group; and
- (2) such transactions and the Annual Caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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

6. LISTING RULES IMPLICATIONS

As at the date of this announcement, AEON GD is held as to 65% by the Company. AEON Mall is an indirect subsidiary of AEON Co, the controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction 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 in respect of the Tenancy Agreement exceed 0.1% but are below 5%, the transactions thereunder are subject to annual review and the applicable disclosure requirements under chapter 14A of the Listing Rules and are exempt from shareholders' approval requirements under chapter 14A of the Listing Rules.

7. INFORMATION ABOUT THE PARTIES

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

AEON Mall is principally engaged in development and leasing businesses.

8. 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 GD”	廣東永旺天河城商業有限公司 (Guangdong AEON Teem Stores Co., Ltd.), a company incorporated in the PRC and owned as to 65% by the Company

“AEON Mall”	永旺夢樂城（廣州增城）商業管理有限公司, a company incorporated in the PRC under PRC laws and an indirect subsidiary of AEON Co
“AEON Mall (GD)”	永旺夢樂城（廣東）商業管理有限公司, a company incorporated in the PRC under PRC laws, an indirect subsidiary of AEON Co and the controlling company of AEON Mall
“Board”	the board of Directors
“Building Developer”	廣州市安晟名創實業有限公司, a company incorporated in the PRC under PRC laws
“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
“Group”	the Company and its subsidiaries
“Handover Date”	Tentatively 31 October 2020, subject to completion of construction work and fulfilment of handover conditions as agreed by the parties in the Tenancy Agreement.
“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Premises”	中國廣東省廣州市增城區永寧街香山大道2號，現暫定名稱為永旺夢樂城廣州增城購物中心1層，自編1000房號 (English translation for reference: Unit 1000 (to be designated) First Floor, AEON Mall — Guangzhou Zengcheng Shopping Centre, No. 2 Xiangshan Road, Yongning Street, Zengcheng district, Guangzhou City, Guangdong Province, China)
“Property Management Company”	the company commissioned by AEON Mall to provide property management services for the Shopping Centre
“RMB”	renminbi, the lawful currency of the PRC

“Shopping Centre”	中國廣東省廣州市增城區永寧街香山大道2號，現暫定名稱為永旺夢樂城廣州增城購物中心 (English translation for reference: AEON Mall — Guangzhou Zengcheng Shopping Centre, No. 2 Xiangshan Road, Yongning Street, Zengcheng district, Guangzhou City, Guangdong Province, China)
“Somerley”	Somerley Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 572, laws of Hong Kong), the independent financial adviser to the Company in respect of the duration of the Tenancy Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement”	the sub-tenancy agreement dated 17 August 2020 entered into between AEON Mall as lessor and AEON GD as lessee
“%”	per cent

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

Hong Kong, 17 August 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.