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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)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE OFFER LETTER REGARDING RENEWAL OF TENANCY

The Board is pleased to announce that on 11 October 2023, AEON GD, a non-wholly owned subsidiary of the Company, as tenant, and the Landlord, as landlord, have conditionally entered into the Offer Letter to surrender a portion of the lease area under the Existing Lease Agreement with effect from 6 May 2024 and to extend the tenancy term of the Premises commencing from 7 May 2024 and ending on 31 October 2039. The Existing Premises have been leased by AEON GD from the Landlord since 25 September 2009 for operating its retail businesses therein under the Existing Lease Agreement.

In accordance with HKFRS 16 “Leases”, the entering into of the Offer Letter by AEON GD as tenant will require the Group to derecognise the right-of-use asset arising from the partial surrender of the lease area and to recognise the additional right-of-use asset arising from the extension of the tenancy term. Therefore, the entering into of the Offer Letter 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 derecognised and recognised by the Group under the Offer Letter in respect of the disposal and the acquisition amounted to approximately RMB11.6 million and approximately RMB207.7 million, respectively.

Since the Offer Letter involves both a disposal and an acquisition, pursuant to Rule 14.24 of the Listing Rules, the transactions under the Offer Letter 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 acquisition of right-of-use asset recognised by the Group pursuant to HKFRS 16 based on the consideration under the Offer Letter is more than 100%, the entering into of the Offer Letter constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held by the Company to seek the Shareholders’ approval of the Offer Letter and the transactions contemplated thereunder.

A circular containing, among other things, (i) further information regarding the Offer Letter and the transactions contemplated thereunder and (ii) the notice of the EGM will be dispatched to the Shareholders as soon as practicable but not later than 16 October 2023 in accordance with the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 11 October 2023, AEON GD, a non-wholly-owned subsidiary of the Company, as tenant, and the Landlord, as landlord, have conditionally entered into the Offer Letter to surrender a portion of the lease area under the Existing Lease Agreement with effect from 6 May 2024 and to extend the tenancy term of the Premises commencing from 7 May 2024 and ending on 31 October 2039. The Existing Premises have been leased by AEON GD from the Landlord since 25 September 2009 for operating its retail businesses therein under the Existing Lease Agreement.

The Offer Letter constitutes a valid and binding arrangement between AEON GD and the Landlord, until superseded by the execution of the Proposed Formal Tenancy Agreement, for the renewal of tenancy in respect of the Premises on the terms and conditions as set out in the Offer Letter.

THE OFFER LETTER

The principal terms of the Offer Letter are summarized as follows:

Date:	11 October 2023
Parties:	(a) AEON GD (as tenant); and (b) the Landlord (as landlord)
Existing Premises:	Portions of a commercial property on Basement 1 and Basement 2, Tianhuicheng Plaza, East Station, Tianhe District, Guangzhou City, Guangdong Province, China* with a total lease area of approximately 26,649.8 square metres (中國廣東省廣州市天河區東站天匯城廣場負一層和負二層部分商業物業)
Partial surrender:	The Existing Lease Agreement shall be early terminated on 6 May 2024 and before 24:00 of 6 May 2024, AEON GD shall surrender a portion of the Existing Premises (comprising certain portions of Basement 1 and Basement 2 of Tianhuicheng Plaza with an aggregate floor area of approximately 10,884.5 square metres) (“ Surrendered Portion ”) to the Landlord and shall remove therefrom all movable shelves, merchandise and equipment but shall not be required to dismantle the original decorations.

As the Company will derecognise the right-of-use asset arising from the partial surrender of the Surrendered Portion, the partial surrender will be regarded as a disposal of right-of-use assets by the Group. The Company expects to recognize a gain of approximately RMB4.6 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 RMB16.2 million) and (ii) the right-of-use asset in respect of the Surrendered Portion (in the amount of approximately RMB11.6 million) upon execution of the Offer Letter.

Lease term: Commencing from 7 May 2024 and ending on 31 October 2039 (both dates inclusive) in respect of the Premises

Premises: Portions of a commercial property on Basement 2, Tianhuicheng Plaza, East Station, Tianhe District, Guangzhou City, Guangdong Province, China* (中國廣東省廣州市天河區東站天匯城廣場負二層部分商業物業), with a total lease area of approximately 16,157.85 square metres (taking into account the partial surrender of the Surrendered Portion and addition of certain new portions).

In addition, the Landlord will also provide certain areas in Basement 1 in the area of approximately 117.31 square metres for AEON GD's use as garbage room and cleaning room.

Rent and management fee for the lease term: The total rent (including tax) payable for the lease term under the Offer Letter is approximately RMB327.7 million (exclusive of management fee, other charges, and outgoings), with the rent being payable by AEON GD to the Landlord on a monthly basis within 10 business days upon receipt of a VAT invoice from the Landlord (which shall be provided by the Landlord no later than the 10th day of the relevant month).

The total management fee (including tax) payable for the lease term under the Offer Letter is approximately RMB79 million which is inclusive of air-conditioning and cesspool usage fees.

The rent and management fee under the Offer Letter have both been determined after arm's length negotiations between AEON GD and the Landlord, after taking into consideration (i) the prevailing market rent and management fee for comparable premises (i.e. similar size, facilities/amenities and quality) in the vicinity of the Premises, (ii) the existing rental (including the rate of annual rental increment) under the Existing Lease Agreement and (iii) the long tenure under the Proposed Formal Tenancy Agreement.

In determining the prevailing market rent and management fee for comparison, the Group had conducted market research, such as obtaining lease transactions/quotations from open source of properties of similar usage (i.e. retail stores) within the Tianhe District. As the unit rates for rent and management fees payable by AEON GD throughout the long lease term of the Proposed Formal Tenancy Agreement are within the range of market rent and management fee levels in the referenced lease transactions considered by the Company, in particular taking into consideration (i) the expected annual inflation rate and the expected annual growth rate in market rental for comparable premises, (ii) the rate of annual rental increment throughout the lease term under the Proposed Formal Tenancy Agreement is lower than that under the Existing Lease Agreement, and (iii) the prime location of the Premises (being situated near the East Railway station which is a major transportation hub with both local and cross-city trains and high foot-traffic volume), the Company is of the view that the rent and management fees payable under the Offer Letter are no less favourable to the Group compared to prevailing market rent and management fees.

Although the average unit rates for rent and management fees payable under the Offer Letter are higher than those set out under the Existing Lease Agreement, taking into account the above factors (such as, expected annual inflation rate and growth rate in market rental for comparable premises), and having also considered the development of the shopping mall where the Premises are situated as compared to when the Existing Lease Agreement was entered into 15 years ago, the Company is of the view that the rent and management fees payable under the Offer Letter are reasonable and no less favourable.

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

Rental concession:

The Landlord has agreed to grant AEON GD a rental concession in the total sum of approximately RMB4.3 million which will be applied to reduce in equal amount each of the monthly rental payments payable in respect of the months from October 2023 to April 2024, provided that should the parties fail to sign the Proposed Formal Tenancy Agreement (and terminate the Existing Lease Agreement accordingly) on or before 31 December 2023 or such other extended period as the parties may agree in writing, the rental concession shall become void and AEON GD shall be liable to repay any such rental concession already granted and provided further that where the Proposed Formal Tenancy Agreement, if executed, shall be early terminated otherwise than due to reasons attributable to the Landlord, AEON GD shall refund the rental concession granted.

Usage: For AEON GD's operation of a retail store in the name of "AEON" and "永旺"

Performance guarantee: AEON GD is required to provide a letter of performance guarantee to be issued by a bank in the sum of RMB3 million within 60 business days of the Proposed Formal Tenancy Agreement. The performance guarantee shall be effective from the date of its issuance until 180 days after the end of the lease term, and the Landlord will be entitled to exercise the performance guarantee and request for payment thereunder if AEON GD provided notice for early termination of the lease.

The performance guarantee was agreed after arm's length negotiations between the parties, and is in line with common market practice regarding the lease of commercial properties in the PRC with long tenure. The Company is of the view that the period of 180 days after the end of the lease term allows the parties more flexibility and sufficient time to settle any outstanding obligations or issues (without the Landlord having to enforce the performance guarantee (if necessary) shortly after expiry of the lease term).

Exclusive freight elevator: The Landlord shall replace the 2 freight elevators for the exclusive use of AEON GD with brand-new ones at its own costs.

Condition precedent: The Offer Letter shall become effective upon the Company's (i) obtainment of Shareholders' approval for the Offer Letter and (ii) compliance with all applicable requirements under the Listing Rules. Within 5 days of fulfillment of this condition precedent, AEON GD shall notify the Landlord of the same in writing.

Both parties have agreed to sign the Proposed Formal Tenancy Agreement annexed to the Offer Letter (or such version as both AEON GD and the Landlord may further agree upon) after fulfilment of the condition precedent and on or before 31 December 2023 or such other extended period as the parties may agree mutually, failing which it is regarded as the refusal by AEON GD to early surrender the Surrendered Portion and an abandonment by AEON GD of the right to (i) extend the lease term of the Premises and (ii) the rental concession. The terms and conditions of the Proposed Formal Tenancy Agreement shall prevail in case of conflict with the Offer Letter.

PROPOSED FORMAL TENANCY AGREEMENT

The principal terms of the Proposed Formal Tenancy Agreement are consistent with that of the Offer Letter and are summarized as follows:

- Parties: (a) AEON GD (as tenant); and
(b) the Landlord (as landlord)
- Lease term: Commencing from 7 May 2024 and ending on 31 October 2039 (both dates inclusive) in respect of the Premises
- Premises: Portions of a commercial property on Basement 2, Tianhuicheng Plaza, East Station, Tianhe District, Guangzhou City, Guangdong Province, China, with a total lease area of approximately 16,157.85 square metres.
- In addition, the Landlord will also provide certain areas in Basement 1 in the area of approximately 117.31 square metres for AEON GD's use as garbage room and cleaning room.
- Rent and management fee: The total rent (including tax) payable for the lease term under the Proposed Formal Tenancy Agreement is approximately RMB327.7 million (exclusive of management fee, other charges, and outgoings). The total management fee (including tax) payable for the lease term under the Proposed Formal Tenancy Agreement is approximately RMB79 million which is inclusive of air-conditioning and cesspool usage fees.
- The rent and management fee are payable by AEON GD to the Landlord on a monthly basis within 10 business days upon receipt of a VAT invoice from the Landlord (which shall be provided by the Landlord no later than the 10th day of the relevant month).
- Rental guarantee: AEON GD shall provide a rental guarantee in the amount of RMB3 million to the Landlord in the form of a bank guarantee letter within 60 business days of the execution of the Proposed Formal Tenancy Agreement. Should AEON GD fail to make on-time payments in accordance with the terms of the Proposed Formal Tenancy Agreement, the Landlord shall have the right to deduct any outstanding amounts from the amount of the rental guarantee.
- Usage: For AEON GD's operation of a retail store in the name of "AEON" and "永旺"
- Exclusive freight elevator: The Landlord shall provide two brand-new freight elevators for the exclusive use of AEON GD during the lease term.

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 an indirect wholly-owned subsidiary of Waykon (China) Co., Ltd. (匯港(中國)有限公司), a company incorporated in Hong Kong which, based on information available in the public domain as at the date of this announcement, is wholly-owned by Mercystone Limited, a company incorporated in the British Virgin Islands. No information about the shareholders of Mercystone Limited has been revealed based on public searches. Based on enquiries made with the Landlord, the ultimate beneficial owners of the Landlord are Mr. Ye Yingqiang (葉英強), Mr. Yao Yongsheng (姚永昇) and Mr. Chen Zhenhua (陳振華), who indirectly hold in aggregate 100% of the equity interest in the Landlord. The Landlord is principally engaged in property investment.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Landlord and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR AND BENEFITS OF THE OFFER LETTER

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 expanding its store network and market shares.

The Existing Premises have been leased by AEON GD from the Landlord since 25 September 2009 for operating its retail businesses therein under the Existing Lease Agreement. The partial surrender of the Surrendered Portion for the remainder term of the Existing Lease Agreement would lead to a decrease in total lease area and in turn a decrease in the scale of the business operation in the Premises. However, the partial surrender is expected to allow AEON GD to enhance its operational efficiency 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 6 May 2024, AEON GD and the Landlord have conditionally entered into the Offer Letter to extend and modify the terms of the Existing Lease Agreement.

The terms of the Offer Letter, 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 (i.e. similar size, facilities/amenities and quality) and the rental payment made by the Group under the Existing Lease Agreement. The entering into of the Offer Letter 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 Offer Letter (and the transactions contemplated thereunder) are on normal commercial terms and are fair and reasonable and the entering into of the Offer Letter (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.

IMPLICATIONS UNDER THE LISTING RULES

In accordance with HKFRS 16 “Leases”, the entering into of the Offer Letter as tenant by AEON GD will require the Group to derecognize the right-of-use asset arising from the partial surrender of the lease area and to recognise the additional right-of-use asset arising from the extension of the tenancy term. Therefore, the entering into of the Offer Letter 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 Offer Letter in respect of the disposal and the acquisition amounted to approximately RMB11.6 million and approximately RMB207.7 million.

As the highest applicable percentage ratio under the Listing Rules in respect of the disposal of right-of-use asset recognised by the Group pursuant to HKFRS 16 based on the partial surrender is more than 5%, the disposal of right-of-use asset (as a result of the entering into the Offer Letter) constitutes a discloseable transaction of the Company. Since the Offer Letter involves both a disposal and an acquisition, pursuant to Rule 14.24 of the Listing Rules, the transactions under the Offer Letter 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 acquisition of right-of-use asset recognised by the Group pursuant to HKFRS 16 based on the consideration under the Offer Letter is more than 100%, the entering into of the Offer Letter constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

EGM

The EGM will be convened and held by the Company on Tuesday, 31 October 2023 to seek the Shareholders’ approval of the Offer Letter and the transactions contemplated thereunder.

A circular containing, among other things, (i) further information regarding the Offer Letter and the transactions contemplated thereunder and (ii) the notice of the EGM will be dispatched to the Shareholders as soon as practicable but not later than 16 October 2023 in accordance with the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 26 October 2023 to Tuesday, 31 October 2023, both days inclusive, for the purpose of determining Shareholders’ entitlement to attend and vote at the EGM, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company’s share registrar, Tricor Secretaries Limited, 17 Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:30 p.m. on Wednesday, 25 October 2023.

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 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)
“Condition Precedent”	approval of the Offer Letter by the Company’s Shareholders and compliance with all applicable requirements under the Listing Rules by the parties to the Offer Letter
“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 directors of the Company
“Existing Lease Agreement”	the existing lease agreement dated 9 March 2009 entered into by AEON GD and the Landlord in respect of the leasing of the Existing Premises from 25 September 2009 to 31 October 2024 (both days inclusive) for a total rent of approximately RMB437.9 million and total management fee of RMB101.3 million for AEON GD’s operation of a retail store in the name of “AEON” and “永旺” (as amended and supplemented by four supplemental agreements dated 25 December 2009, 13 May 2011 and 16 April 2021, respectively)
“EGM”	the extraordinary general meeting of Shareholders (and any adjournment thereof) to be held on Tuesday, 31 October 2023 to consider the resolution relating to the Offer Letter and the transactions contemplated thereunder and any adjournment of such meeting

“Existing Premises”	portions of the commercial property on Basement 1 and Basement 2, Tianhuicheng Plaza, East Station, Tianhe District, Guangzhou City, Guangdong Province, the PRC* with a total lease area of approximately 26,649.8 square metres (中國廣東省廣州市天河區東站天匯城廣場負一層和負二層部分商業物業)
“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, who 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”	Guangzhou Sky Metro City Company Limited* (廣州東站天匯城有限公司), a company incorporated in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Offer Letter”	the offer letter dated 11 October 2023 in respect of the Premises conditionally entered into by AEON GD and the Landlord
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Premises”	portions of the commercial property in Basement 2, Tianhuicheng Plaza, East Station, Tianhe District, Guangzhou City, Guangdong Province, the PRC* (中國廣東省廣州市天河區東站天匯城廣場負二層部分商業物業), being the Existing Premises less the Surrendered Portion but adding certain new portions thereto and resulting in a total lease area of approximately 16,157.85 square metres together with the use of certain areas on Basement 1 as garbage room and cleaning room
“Proposed Formal Tenancy Agreement”	the formal tenancy renewal agreement proposed to be entered into between AEON GD and the Landlord in respect of the renewal of the Premises in due course
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholder(s)” holders of the shares in the Company from time to time

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“%” per cent.

* *the English names of the entities incorporated in the PRC or addresses in the PRC are translation of their respective Chinese company names or addresses for the purpose of identification only*

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

Hong Kong, 11 October 2023

As at the date of this announcement, the Executive Directors are Mr. Takenori Nagashima and Mr. Shinya Hisanaga; the Non-executive Directors are Mr. Isei Nakagawa, Mr. Makoto Fukuda, Mr. Toshiya Goto and Mr. Hiroyuki Inohara; and the Independent Non-executive Directors are Mr. Chow Chi Tong and Mr. Hideto Mizuno and Ms. Shum Wing Ting.