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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 REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE MASTER AGREEMENT**

Reference is made to the announcement of the Company dated 17 April 2023 in relation to the Master Agreement entered into between the Company and AGMd for the purchase of NB Merchandise by the Company from AGMd and for a term of 3 years expiring on 16 April 2026.

In view of the actual business needs for the NB Merchandise and the Company's revised purchase projections, the Original Annual Caps are expected to be insufficient. The Directors therefore revised the Original Annual Caps.

As at the date of this announcement, AGMd 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 Master Agreement constitute continuing connected transactions of the Company under the Listing Rules.

According to Rule 14A.54 of the Listing Rules, as the Company proposes to revise the Original Annual Caps for the Master Agreement, the Company is required to re-comply with the provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transactions.

As the highest applicable percentage ratio as defined under Rule 14.07 of the Listing Rules for the Revised Annual Caps exceeds 5%, the Revised Annual Caps and the transactions contemplated under the Master Agreement are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Revised Annual Caps.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

The Company will convene an EGM to seek approval from the Independent Shareholders in respect of the Revised Annual Caps.

A circular containing, among other things, (i) further information on the Revised Annual Caps; (ii) the letter from the Independent Board Committee; (iii) the letter from Independent Financial Adviser; (iv) the notice of EGM; and (v) other information as required under the Listing Rules is expected to be despatched to the Shareholders no later than 16 December 2023.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 17 April 2023 in relation to the Master Agreement entered into between the Company and AGMd for the purchase of NB Merchandise by the Company from AGMd and for a term of 3 years expiring on 16 April 2026. The principal terms of the Master Agreement, the Original Annual Caps and the related internal control were disclosed in the Company's announcement dated 17 April 2023.

The principal terms of the Master Agreement are as follows:

Date: 17 April 2023

Parties: (i) The Company, as purchaser; and  
(ii) AGMd, as seller.

The term: The term of the Master Agreement shall be for a period of three years commencing from the 17 April 2023 and ending on 16 April 2026. The parties to the Master Agreement may, subject to compliance with the Listing Rules, renew the Master Agreement.

Nature of Transactions: The Company will purchase from AGMd a variety of the NB Merchandise which AGMd procures from popular brand owners who are third parties independent of AEON Co, its subsidiaries and associates. Such merchandise covers a wide range of categories, such as fashion, food and household items, and would then be sold by the Company to retail customers at its general merchandise stores and supermarket stores.

Pricing: The sale and purchase of the NB Merchandise between the parties will be charged at such price being the Actual Costs plus a mark-up rate of 3% of the Actual Costs. The total price (being the Actual Costs plus a mark-up rate of 3% of the Actual Costs) shall be inclusive of the merchandise costs, agency fee, provision of product information, administration fee, sample fee, system registration fee and all other services incidental to the sale of the NB Merchandise by AGMd.

The prices offered by AGMd to the Company shall be no less favourable than (i) the prices offered by independent supplier(s) of the Company for the same or similar merchandises at the same delivery destination and (ii) the prices offered by AGMd to its other purchaser(s) of the AEON Group, if any, having disregarded the delivery charges which vary according to the relative location of a purchasing party. Since the Company has already conducted the comparison in the prices offered by AGMd and the independent suppliers, the second comparison is to ensure that AGMd offers the same price to all purchaser(s) of the AEON Group, including the Company. Therefore, the prices offered by AGMd are on normal commercial terms.

**Rebates:** AGMd may, taking into account factors such as purchase volume, promotions from manufacturers, its own budgets, results and profits earned, grant rebates to the Company as agreed mutually between the parties from time to time.

**Sales Contracts:** The Company shall enter into specific sale and purchase contracts with AGMd, which adopt the terms and conditions set out in the Master Agreement and the standard terms and conditions of the Company prevailing at the time of execution of the sale and purchase contract. The sale and purchase contracts will set out detailed terms (e.g. the payment terms) of the sale and purchase of merchandise.

**Further Assistance:** For the purposes of facilitating the Company's sourcing of merchandises, which would enable the Company to efficiently provide its general merchandise stores and supermarket stores with the required types and amounts of merchandise and maintain the competitiveness of its business, the Company and AGMd shall, as may be practicable in the circumstances, share with each other (on a strictly need-to-know basis) information relating to the purchasing, selling, stocking, pricing and specifications of each other's merchandise. AGMd shall, upon request by the Company and within a reasonable period of time, further provide such market information and data as may be required. Both the Company and AGMd have undertaken to keep all such information and data received or exchanged confidential.

In addition, AGMd agrees to allow the Company's auditors sufficient access to their records for the purpose of auditing and/or reporting on the transactions in accordance with the requirements of the Listing Rules.

**Termination:** The Master Agreement may be terminated by 3 month's prior written notice by either party. On termination, each sale and purchase contract then in force shall nevertheless continue in full force and effect for the remainder of the term of such sale and purchase contract, unless terminated in accordance with the terms of such contract.

Since commencement of the Master Agreement, the Company has been making purchases of the NB Merchandise from AGMd. Through these purchases, the Company and its various business teams involved in the handling the purchases are getting familiar with the operation procedures and requirements. The Company has procured certain items of NB Merchandise which the Company will be making regular purchases, including confectioneries, biscuits, oil, salad dressing/seasonings, soymilk, diapers and paperwares. In addition, the Company began to purchase ice cream products from AGMd since June 2023.

In response to the rapidly changing market environment and customers' demands, the Company considers it appropriate to enhance and enlarge the purchases from AGMd. The Directors have thus revised the business projections so that there will be gradual increase in the regular purchase items of the NB Merchandise and the increase in the selected frozen items of the NB Merchandise. In the revised business projections, the purchase volume will also be increased where the particular purchase is to meet with seasonal and/or promotional needs.

It is therefore expected that the transaction amounts for the purchase of NB Merchandise under the Master Agreement will exceed the Original Annual Caps. The Company has resolved to revise the Original Annual Caps to the Revised Annual Caps, while all the terms and conditions under the Master Agreement remain unchanged.

### **REVISION OF ANNUAL CAPS**

The total transaction amounts for the actual purchase of NB Merchandise pursuant to the Master Agreement for the period from 17 April 2023 to 30 September 2023 was approximately HK\$4.1 million which represents about 52.6% of the Original Annual Caps of HK\$7.8 million for the period from 17 April 2023 to 31 December 2023. As at the date of this announcement, the Original Annual Caps have not been exceeded.

In view of the revised business projections, the Original Annual Caps are expected to be insufficient and the Directors have therefore revised the Original Annual Caps as follows:

<b>Financial Year/Period</b>	<b>Original Annual Caps</b>	<b>Revised Annual Caps</b>
17/4/2023 to 31/12/2023	HK\$7.8 million	HK\$8.4 million
1/1/2024 to 31/12/2024	HK\$11.0 million	HK\$18.1 million
1/1/2025 to 31/12/2025	HK\$11.0 million	HK\$26.4 million
1/1/2026 to 16/4/2026	HK\$3.2 million	HK\$9.0 million

The Revised Annual Caps have been determined with reference to the historical transaction amounts under the Master Agreement and the revised business projections which encompass gradual increase in the regular purchase items of NB Merchandise, increase in the selected frozen items of NB Merchandise and increase in purchase of NB Merchandise to meet seasonal and promotional needs.

Notwithstanding the revision of the Original Annual Caps, all the terms and conditions of the Master Agreement remain unchanged.

## **REASONS FOR THE REVISION OF ANNUAL CAPS**

AGMd has been set up by AEON Co to place bulk-purchase orders for the NB Merchandise after having gathered and co-ordinated demands from all the members in the different retail lines of the AEON Group in Japan. By taking advantage of the vast combined demands created by thousands of the retail outlets of the AEON Group, AGMd is in a good position to negotiate with independent brand owners to obtain better discounts for the purchase of the NB Merchandise, which in turn, is enjoyed by the retail members of the AEON Group.

As a retail outlet operator, the Group has been procuring from independent suppliers for the same or similar merchandise as those procured by AGMd for other members of the AEON Group. In order to enjoy the benefits derived from the aggregated purchasing/bargaining power of AGMd which may in turn enhance the Company's control on merchandise costs and gross profit margins, the Company and AGMd entered into of the Master Agreement on 17 April 2023.

The Directors have been carefully monitoring the historical transacted amounts and estimated transaction amounts under the Master Agreement. In the revised business projections, the Company will be making more purchases of the NB Merchandise than as it was expected under the previous business projections based on which the Original Annual Caps were prepared. In view of the revised business projections, the Directors expect that the Original Annual Caps will be exceeded and therefore propose to revise the Original Annual Caps to the Revised Annual Caps.

The Directors, including all the independent non-executive Directors, are of the view that (i) the entering into of the Master Agreement and the transaction contemplated thereunder are in the ordinary and usual course of business of the Group; (ii) the terms of the Master Agreement and the transactions contemplated thereunder are on normal commercial terms; and (iii) the terms of the Master Agreement, the transactions contemplated thereunder, together with the Revised 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 Revised Annual Caps, Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga, Mr. Makoto Fukuda, Mr. Toshiya Goto and Mr. Hiroyuki Inohara, who are shareholders, employees and/or ex-employees of AEON Co, were regarded as potentially having a material interest in the Master Agreement and accordingly abstained from voting on the relevant resolutions.

## **INTERNAL CONTROL**

In order to ensure that the Company's total cost for its purchase of merchandise from AGMd is no less favourable than that from independent supplier(s), the Company has set up mechanism for the direct import team and the buying office of the Company. The Company has devised purchase plan of the target merchandise and the respective quantity. The direct import team will check, among others, the latest prices quoted by AGMd and the other charges and costs in procuring the merchandise while the buying office will update the quoted prices as collected and/or received by the Company from the relevant independent suppliers regularly. The direct import team shall be responsible to compare the total cost of the Company for the purchase of the relevant merchandise from AGMd at the time when effecting the particular purchase against the then quoted prices from the independent supplier(s). It is only when the total cost of the Company for the purchase of the merchandise from AGMd is no less favourable than the total costs from the independent supplier(s), the direct import team will place purchase order with AGMd for the compared merchandise. Records of such comparison shall be documented as proof for subsequent verification by the Company's Connected Party Transaction Panel.

As part of the Group's internal control systems, the Company's Connected Party Transaction Panel, comprising the finance general manager, legal senior manager and the finance/administration general managers of two subsidiaries of the Company, will assist the Directors to review and monitor all connected transactions of the Group including the transactions under the Master Agreement.

The Connected Party Transaction Panel generally holds meetings biweekly to review and monitor all continuing connected transactions of the Group (including the transactions contemplated under the Master Agreement). Whilst the finance departments of the relevant members of the Group will conduct the initial level of control over the transactions and the transaction amounts under the Master Agreement to ensure they are conducted within the frameworks and the annual caps of the Master Agreement. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under the Master Agreement to ensure the transactions are conducted within the framework of the Master Agreement and monitor the utilization of the annual caps for the Master Agreement to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

## **INFORMATION ABOUT THE PARTIES**

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

AGMd is principally engaged in merchandise procurement for members of the AEON Group with its mission to maximize AEON Group's purchasing volume, to consolidate business negotiations with business partners and manufacturers and to reduce costs by aggregating demands from group companies.

AEON Co is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. AEON Co is the controlling shareholder of the Company, who beneficially owns approximately 60.59% of the issued share capital of the Company, and is a connected person of the Company under Chapter 14A of the Listing Rules. AEON Co's subsidiaries and associated companies are principally engaged in the operation of general merchandise stores, the operation of specialty stores, the development of shopping centres as well as services and other operations in Japan and other Asian countries.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, AGMd 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 Master Agreement constitute continuing connected transactions of the Company under the Listing Rules.

According to Rule 14A.54 of the Listing Rules, as the Company proposes to revise the Original Annual Caps for the Master Agreement, the Company is required to re-comply with the provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transactions.



As the highest applicable percentage ratio as defined under Rule 14.07 of the Listing Rules for the Revised Annual Caps exceeds 5%, the Revised Annual Caps and the transactions contemplated under the Master Agreement are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

#### **FORMATION OF AN INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Revised Annual Caps.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

#### **CIRCULAR**

A circular containing, among other things, (i) further information on the Revised Annual Caps, (ii) the letter from the Independent Board Committee, (iii) the letter from the Independent Financial Adviser, (iv) the notice of EGM, and (v) other information as required under the Listing Rules is expected to be despatched to the Shareholders no later than 16 December 2023.

#### **EGM**

The Company will convene an EGM to seek approval from the Independent Shareholders in respect of the Revised Annual Caps. At the EGM, an ordinary resolution approving the Revised Annual Caps shall be proposed and, if thought fit, approved by the Independent Shareholders.

In view of AEON Co's interests in the Master Agreement, AEON Co, which as at the date of this announcement beneficially holds 155,760,000 shares in the Company (representing approximately 59.91% of the issued shares in the Company), and its associates (namely, Aeon Credit Services (Asia) Company Limited, which is a subsidiary of AEON Co and as at the date of this announcement is a beneficial owner of 1,776,000 shares in the Company, representing approximately 0.68% of the issued shares in the Company) are required to abstain and shall abstain from voting on the ordinary resolution to be proposed at the EGM to approve the Revised Annual Caps.

As such, AEON Co and Aeon Credit Service (Asia) Company Limited, which (i) in aggregate beneficially own and control 157,536,000 shares in the Company (representing approximately 60.59% of the issued shares in the Company) and (ii) are entitled to exercise control over the voting rights in respect of their respective shares in the Company, shall abstain from voting at the EGM under the Listing Rules.

Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga, Mr. Makoto Fukuda, Mr. Toshiya Goto and Mr. Hiroyuki Inohara are shareholders, employees and/or ex-employees of AEON Co and are regarded as potentially having a material interest in the Master Agreement. Accordingly, they have abstained from voting on the relevant resolutions at the Board meeting convened to consider the Revised Annual Caps. For the same reason, Mr. Isei Nakagawa (who as at the date of this announcement beneficially holds 15,000 shares in the Company, representing approximately 0.00577% of the issued shares in the Company), Mr. Takenori Nagashima (who as at the date of this announcement beneficially holds 12,000 shares in the Company, representing approximately 0.00462% of the issued shares in the Company) and Mr. Shinya Hisanaga (who as at the date of this announcement beneficially holds 30,000 shares in the Company, representing approximately 0.01154% of the issued shares in the Company), will also abstain from voting on the relevant resolution as Shareholders at the EGM. Apart from the above persons, the Directors are not aware of any other Shareholders who are required to abstain from voting on the resolutions at the EGM.

## DEFINITIONS

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

“Actual Costs”	the actual costs of the merchandise paid and/or payable to the manufacturers, factories and/or suppliers who are independent third parties from AEON, its subsidiaries and/or associates
“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 and, unless the context otherwise requires, excluding members of the Group
“AGMd”	AEON Global Merchandising Company Limited, a company incorporated in Japan with limited liability, and a wholly owned 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
“EGM”	the extraordinary general meeting of Shareholders (and any adjournment thereof) to be held to consider the resolution relating to the Revised Annual Caps
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Mr. Chow Chi Tong, Mr. Hideto Mizuno and Ms. Shum Wing Ting
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licenced to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Revised Annual Caps
“Independent Shareholders”	Shareholders other than those who have a material interest in the Master Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the agreement dated 17 April 2023 entered into between the Company and AGMd in respect of the purchases of the NB Merchandise by the Company from AGMd
“NB Merchandise”	merchandise of various popular brands which are made widely available in the market by the respective brand owners who are third parties independent of AEON Co, its subsidiaries and associates
“Original Annual Caps”	the annual caps in respect of the Master Agreement for the three years ending 16 April 2026, as disclosed in the announcement of the Company dated 17 April 2023
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Revised Annual Caps”	the revised annual caps in respect of the Master Agreement for the three years ending 16 April 2026, as set out in this announcement

“Shareholders” holders of the shares of the Company from time to time  
“Stock Exchange” The Stock Exchange of Hong Kong Limited  
“%” per cent

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

Hong Kong, 29 November 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, Mr. Hideto Mizuno and Ms. Shum Wing Ting.*