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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 RENEWAL OFFER TO LEASE I

The Board is pleased to announce that on 9 May 2024, the Company, as tenant, received from the Agent, as agent of the Landlord, the duly accepted Renewal Offer to renew the tenancy of the Premises for a fixed term of four (4) years from 1 June 2024 and ending on 31 May 2028 (both days inclusive) together with an option to renew for a further term of three (3) years. The Premises have been leased by the Company since 1987 for operating its retail businesses therein.

Pursuant to HKFRS 16, the entering into of the Renewal Offer by the Company as tenant will require the Group to recognise the right-of-use asset arising from the extension of the tenancy term. Therefore, the entering into of the Renewal Offer will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of the right-of-use asset to be recognised by the Group under the Renewal Offer amounted to approximately HK\$587.4 million.

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 Renewal Offer is more than 100%, the entering into of the Renewal Offer constitutes a very substantial acquisition for 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 Renewal Offer and the transactions contemplated thereunder.

A circular containing, among other things, (i) further information regarding the Renewal Offer 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 May 2024 in accordance with the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 9 May 2024, the Company, as tenant, and the Agent, as agent of the Landlord, entered into the Renewal Offer to renew of the tenancy of the Premises for a fixed term of four (4) years from 1 June 2024 to 31 May 2028 (both days inclusive) together with an option to renew for a further term of three (3) years. The Premises have been leased by the Company since 1987 for operating its retail businesses therein.

The Renewal Offer shall be legally binding between the Company and the Agent, as agent of the Landlord, until superseded by the execution of a formal lease, for the renewal of tenancy in respect of the Premises on the terms and conditions as set out in the Renewal Offer.

THE RENEWAL OFFER

The principal terms of the Renewal Offer are as follows:

- Date: Signed by the Company and the Agent on 9 May 2024
- Parties: (a) the Company, as tenant; and
(b) the Agent, as agent for the Landlord
- Premises: All those portions of the Ground Floor, First Floor, Second Floor, Third Floor and Fourth Floor including the AHU Room, the Lift Motor Room on the Fifth Floor, the Fan Room and the Condenser Room on the Sixth Floor and Fan Rooms on the Seventh Floor, Kornhill Plaza, 2 Kornhill Road, Hong Kong
- Handover condition: On an “as-is” condition together with the Landlord’s fixtures and fittings
- Term of tenancy: A fixed term of four (4) years commencing from 1 June 2024 to 31 May 2028 (both days inclusive) together with an option to renew for a further term of three (3) years. Provided that if the condition precedent is not fulfilled on or before 1 June 2024, the fixed term of tenancy of four (4) years shall only commence on the date of fulfillment.
- Rent for the term: The total basic rent payable under the Renewal Offer in respect of the fixed term is approximately HK\$683.3 million (exclusive of management fee, air-conditioning charges, government rates, other utility charges and outgoings). The monthly basic rent payable for the 1st year of the term of tenancy is HK\$13,955,200.00, that payable for the 2nd to 3rd year of the term of tenancy is HK\$14,234,300.00 and that payable for the 4th year of the term of tenancy is HK\$14,519,000.00. Based on the above, the annual basic rent payable for the 1st year of the term of tenancy is approximately HK\$167.5 million, that payable for the 2nd to 3rd year of the term of tenancy is approximately HK\$170.8 million and that payable for the 4th year of the term of tenancy is approximately HK\$174.2 million. The basic rent is payable in advance on the first day of each calendar month.

Additional turnover rent at progressive rates of 5% to 6% on such portion of the Company's annual gross turnover which exceeds HK\$1,300 million are payable by the Company throughout the whole fixed term. Additional turnover rent, if payable, shall be payable in arrears within two (2) months after the end of each 12-month period of the term of tenancy.

The rent (including the basic rent and additional turnover rent) under the Renewal Offer has been determined after arm's length negotiations between the Company and the Landlord, after taking into consideration the prevailing market price for comparable premises (i.e. similar size, facilities/amenities and quality) in the vicinity of the Premises and the existing rental under the Existing Lease Agreements. In determining the prevailing market rent for comparison, the Company had conducted market research, such as obtaining publicly available lease transactions information of properties of similar usage within the Kornhill district. As a comparison, in both the Existing Lease Agreements and the Renewal Offer, the incremental rate for rental unit rates is maintained at a low single digit. As the rental unit rates payable by the Company throughout the term of the tenancy under the Renewal Offer are within the range of market rent levels in the referenced lease transactions considered by the Company, in particular taking into account the prime location of the Premises (being situated right above the Taikoo station and surrounded by a dense residential area) and the connection of the Premises through footbridges to the other commercial developments, the Company is of the view that the rent payable under the Renewal Offer is no less favourable to the Company compared to prevailing market rent. Taking into account all the above factors and in particular that the rental unit rates for the rent payable by the Company throughout the term of tenancy under the Renewal Offer are within the range of market rent in the referenced lease transactions considered by the Company, the Company is of the view that the rent is fair and reasonable and on normal commercial terms.

The rent payable under the Renewal Offer will be satisfied by internal resources of the Group.

Management fee & air-conditioning charges:

The total management fee and air-conditioning charges payable during the fixed term of tenancy under the Renewal Offer is approximately HK\$145.8 million. The monthly management fee and air-conditioning charges are payable to the Landlord monthly in advance on the 1st day of each calendar month (subject to periodic reviews by the Landlord or the manager of the Building).

Government rates:

To be borne by the Company solely and subject to revision by the government.

- Usage: For the Company's operation of a general merchandise store in the name of "AEON STYLE" including supermarket, food & beverage, fashion and accessories, children's toys and wear, amusement center, household products, electrical appliances & audio and video products and other business incidental to a general merchandise store which is approved by the Landlord (such approval shall not be unreasonably withheld or delayed).
- Deposit: A deposit in the sum of approximately HK\$52.8 million of which approximately HK\$50.8 million will be transferred from the Existing Lease Agreements subject to any deduction by the Landlord in accordance with the terms of the Existing Lease Agreements.
- The lease: The Company shall execute and return to the Landlord the lease within fourteen (14) days upon notification or presentation of the mutually agreed lease or before the commencement of the lease term, whenever is earlier. Should the Company fail to execute the said lease within fourteen (14) days from notice, the Landlord is entitled to, among other things, enforce against the Company all the terms and conditions of the Renewal Offer.
- Option to renew: Subject to due performance by the Company, the Company shall be entitled to renew the tenancy for a further term of three (3) years from the date immediately following the expiry of the fixed term of the tenancy under the Renewal Offer in accordance with the mechanism for the exercise of the option and the determination of the basic rent and turnover rent contained in the Renewal Offer. In order to exercise the option, the Company shall give written notice of renewal to the Landlord not earlier than a date falling after the expiry of the 39th month nor no later than the expiry of the 40th month of the term of tenancy. Subject to the Company's compliance with the applicable requirements under the Listing Rules including the obtainment by the Company of its shareholders' approval, the Landlord agrees to grant the Company a further term of three (3) years from the date immediately following the expiry of the Renewal Offer and the parties will enter into a new lease agreement. The parties shall then negotiate the basic rent and the additional turnover rent for the further term in good faith and mutual agreement. Where consensus cannot be reached, both parties shall jointly appoint an independent valuer to assess the open market rent which shall be expressed in the combination of basic rent and additional turnover rent and at a level no less than the rent paid (for basic rent) and the calculation mechanism (for additional turnover rent) in the last year of the term of tenancy under the Renewal Offer.
- Sale or redevelopment: Should the Landlord (i) enter into a contract to sell the Premises, the Building or any part thereof to any purchaser or (ii) resolve to redevelop, refurbish, demolish or renovate the Building or any part thereof including the Premises, the Landlord shall have the right to terminate the Renewal Offer or the lease by giving the Company not less than six (6) months' prior written notice without any compensation, which written notice shall not be served by the Landlord within the first forty-two (42) months from the commencement of the term of tenancy.

- Renovation: The Company shall carry out renovation on the Third Floor of the Premises with trade mix refined to the Landlord's satisfaction.
- Stamp duty: The Company agrees to bear and pay all stamp duty arising out of the Renewal Offer in equal shares with the Landlord.
- Yield-up: The Company shall, at its own costs and expenses, reinstate the Premises to the "bare-shell" condition and deliver up vacant possession of the Premises to the Landlord at the expiration or sooner determination of the Renewal Offer in accordance with its terms.
- Condition precedent: The Renewal Offer shall be conditional upon the Company's obtainment of the Shareholders' approval of the Renewal Offer at the EGM and compliance with all applicable requirements under the Listing Rules. Where the condition precedent is not fulfilled on or before 1 June 2024, subject to the Landlord's right to terminate the Renewal Offer in the event of undue delay (in fulfillment of the condition precedent) for over one (1) month from 1 June 2024, the Company shall take possession of the Premises from 1 June 2024 on a monthly basis on the terms and conditions set out in the Existing Lease Agreements until the condition precedent is fulfilled.

PROPOSED LEASE

The principal terms of the proposed lease in respect of the Premises are consistent with that of the Renewal Offer and are summarised as follows:

- Parties: (a) the Company, as tenant; and
(b) the Agent, as agent for the Landlord
- Term of tenancy: A fixed term of four (4) years commencing from 1 June 2024 to 31 May 2028 (both days inclusive) together with an option to renew for a further term of three (3) years
- Premises: All those portions of the Ground Floor, First Floor, Second Floor, Third Floor and Fourth Floor including the AHU Room, the Lift Motor Room on the Fifth Floor, the Fan Room and the Condenser Room on the Sixth Floor and Fan Rooms on the Seventh Floor, Kornhill Plaza, 2 Kornhill Road, Hong Kong
- Rent for the term: The total basic rent payable under the Renewal Offer in respect of the term is approximately HK\$683.3 million (exclusive of management fee & air-conditioning charges, government rates, other utility charges and outgoings).

Additional turnover rents at progressive rates of 5% to 6% on such portion of the Company's annual gross turnover which exceeds HK\$1,300 million are payable by the Company throughout the whole fixed term.

Deposit: A deposit in the sum of approximately HK\$52.8 million of which approximately HK\$50.8 million will be transferred from the Existing Lease Agreements subject to any deduction by the Landlord in accordance with the terms of the Existing Lease Agreements.

Usage: For the Company's operation of a retail store in the name of "AEON STYLE" including supermarket, food & beverage, fashion and accessories, children's toys and wear, amusement center, household products, electrical appliances & audio and video products and other business incidental to a general merchandise store which is approved by the Landlord (such approval shall not be unreasonably withheld or delayed)

INFORMATION OF THE PARTIES

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

The Landlord and the Agent are principally engaged in property leasing and real estate agency activities, respectively.

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

REASONS FOR AND BENEFITS OF THE RENEWAL OFFER

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 lease retail stores for operating its retail businesses 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.

The Premises have been leased by the Company from the Landlord since 1987 for operating its retail businesses therein. As the Existing Lease Agreements will expire on 31 May 2024, the Company and the Agent, as agent of the Landlord, have conditionally entered into the Renewal Offer to renew the lease of the Premises to 31 May 2028 with an option for the Company to renew for a further term of three (3) years.

The terms of the Renewal Offer, including the rental charge, were determined after arm's length negotiations between the parties and with reference to the prevailing market price for comparable properties (i.e. similar size, facilities/amenities and quality) in the vicinity of the Premises and the rental payment made by the Company under the Existing Lease Agreements. The entering into of the Renewal Offer is necessary for the operation of the retail business in the ordinary and usual course of business of the Group. Therefore, the Board considers that the terms of the Renewal Offer are on normal commercial terms and are fair and reasonable and the entering into of the Renewal Offer 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

Pursuant to HKFRS 16, the entering into of the Renewal Offer by the Company as tenant will require the Group to recognise the right-of-use asset arising from the extension of the tenancy term. Therefore, the entering into of the Renewal Offer will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of the right-of-use asset to be recognised by the Group under the Renewal Offer amounted to approximately HK\$587.4 million.

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 Renewal Offer is more than 100%, the entering into of the Renewal Offer constitutes a very substantial acquisition for 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 to seek the Shareholders' approval of the Renewal Offer and the transactions contemplated thereunder.

A circular containing, among other things, (i) further information regarding the Renewal Offer 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 May 2024 in accordance with the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 May 2024 to Friday, 31 May 2024, 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, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:30 p.m. on Tuesday, 28 May 2024.

DEFINITIONS

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

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| “Agent” | Hang Lung Real Estate Agency Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Hang Lung Properties Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 101) |
| “Board” | board of Directors |
| “Building” | The building known as Kornhill Plaza, 2 Kornhill Road, Hong Kong |
| “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 |
| “Director(s)” | the directors of the Company |
| “EGM” | the extraordinary general meeting of Shareholders to be held on Friday, 31 May 2024 (and any adjournment thereof) to consider the resolution relating to the Renewal Offer and the transactions contemplated thereunder |
| “Existing Lease Agreements” | the existing lease agreement dated 23 November 2018 and the letter of extension dated 12 April 2024 entered into by the Company and the Agent, as agent for the Landlord, in respect of the Premises for a term of six (6) years from 1 April 2018 and extended two months to 31 May 2024 (both dates inclusive), and for the Company’s operation of a retail store and the rent of which consisted of monthly basis rent and additional turnover rent as follows: monthly basic rent of HK\$12,420,000 for 1st to 2nd year; HK\$13,165,200 for 3rd to 4th year; and HK\$13,955,112 for 5th to 6th year and the said two months extension; and additional turnover rent at progressive rates of 5% to 8% on such portion of the Company’s annual gross turnover which exceeds HK\$900 million are payable by the Company throughout the whole fixed term |
| “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 dollar, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |

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| “Independent Third Parties” | any person or company and their respective ultimate beneficial owner(s) who/which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are not connected persons of the Company and is/are third party(ies) independent of the Company and its connected persons in accordance with the Listing Rules |
| “Landlord” | Hang Fine Company Limited, a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of Hang Lung Properties Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange (stock code: 101) |
| “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 announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “Premises” | all those portions of the Ground Floor, First Floor, Second Floor, Third Floor and Fourth Floor including the AHU Room, the Lift Motor Room on the Fifth Floor, the Fan Room and the Condenser Room on the Sixth Floor and Fan Rooms on the Seventh Floor, Kornhill Plaza, 2 Kornhill Road, Hong Kong, with total lease area, based on information available to the Company, of approximately 260,000 square feet |
| “Renewal Offer” | the conditional letter of offer in respect of the renewal of the tenancy of the Premises signed by the Company and the Agent, as agent of the Landlord, on 9 May 2024 |
| “Shareholder(s)” | holders of the shares in 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
Toshiya GOTO
Chairman

Hong Kong, 9 May 2024

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