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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 ROYALTY AGREEMENT

Reference is made to the announcement of the Company dated 24 December 2018 in relation to the Previous Royalty Agreement. The Previous Royalty Agreement will expire on 31 December 2021.

The Board is pleased to announce that on 30 September 2021, the Company has conditionally entered into the Royalty Agreement with AEON. The term of the Royalty Agreement will commence on 1 January 2022 for a period of three years.

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

As the highest of the applicable percentage ratios in respect of the Annual Caps is more than 5%, the transactions contemplated under the Royalty Agreement constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements and the 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 as to whether the terms of the Royalty Agreement and the relevant Annual Caps of the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

The Company will convene an EGM to seek approval from the Independent Shareholders in respect of the Royalty Agreement.

A circular containing, among other things, (i) the details of the Royalty Agreement; (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 20 October 2021.

INTRODUCTION

Reference is made to the announcement of the Company dated 24 December 2018 in relation to the Previous Royalty Agreement. The Previous Royalty Agreement will expire on 31 December 2021.

The Board is pleased to announce that on 30 September 2021, the Company has conditionally entered into the Royalty Agreement with AEON to renew the Previous Royalty Agreement.

THE ROYALTY AGREEMENT

The principal terms of the Royalty Agreement are as follows:

- Date: 30 September 2021
- Parties: (a) the Company; and
(b) AEON, as adviser
- Term: Subject to the fulfilment of the Condition Precedents, the term of the Royalty Agreement shall be a period of three years commencing on 1 January 2022 and expiring on 31 December 2024 unless terminated earlier in accordance with the terms of the Royalty Agreement. If the Condition Precedents have not been fulfilled as certified by the respective party, the Royalty Agreement shall immediately terminate and the parties shall have no claims thereunder save as to any antecedent breach.
- Trademarks: Pursuant to the Royalty Agreement, the Company and its Affiliates (through the Company) shall be granted:
- (a) an exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business within the Territory;
 - (b) a non-exclusive right to use the PRC Trade Marks in relation to the Business within the PRC; and
 - (c) a non-exclusive right to use the Trade Marks in relation to the following businesses in the Territory and the PRC:
 - (i) the provision of retail services;
 - (ii) the operation of shopping centres; and
 - (iii) catering services, food-court with seating and restaurants.

- Technical assistance: AEON shall disclose full particulars of the Know-How to the Company and grant the Company the non-exclusive right to use the Know-How in relation to the Business in the Territory and the PRC.
- Fees and payment: In each financial year during the term of the Royalty Agreement, the Company shall pay to AEON a fee equal to (a) an amount representing 0.2% of the audited consolidated Total of Revenue of the Company and its Affiliates for such financial year; and (b) an amount representing 0.05% of the audited Total of Revenue of the Company and its Affiliates in respect of the Business in the Territory for such financial year.
- The fee shall be paid within 30 days after the Company's annual general meeting (or its adjourned meeting(s)) for approving the Company's consolidated financial results of each financial year.
- Non-competition: AEON undertakes that, except with the prior written consent of the Company, neither AEON nor any of its Affiliates will, either solely or jointly with any person, be engaged in or participate in the ownership or operation of retail business in the style of Multiple Category Stores and/or Special Supermarket Stores within the Territory.
- Termination: The Royalty Agreement may be terminated with immediate effect by either party if the other party commits any continuing or material breach and (in case the breach is capable of remedy) fails to remedy the same within 60 days after receipt from the non-defaulting party's written request to remedy, or if the other party is in liquidation, receivership or ceases to carry on business, etc. On termination, the Company shall remove all signs and other things on which any of the Trade Marks are used and shall thereafter cease use of:
- (a) any of the Trade Marks including any trading name which consist of or includes any of the Trade Marks; and
 - (b) the Know-How,
- and shall procure its Affiliates to do the same. Any continued use of the Trade Marks and/or the Know-How by the Company and its Affiliates after termination or expiry of the Royalty Agreement shall be subject to separate negotiations and written agreement between the parties.

The transaction amount and annual cap:

The Directors estimate that the maximum amount payable by the Company to AEON under the Royalty Agreement on an annual basis will not exceed the annual caps below:

Financial Year/Period	Annual cap HK\$ million
1 January to 31 December 2022	32.1
1 January to 31 December 2023	34.7
1 January to 31 December 2024	37.2

In arriving at the above annual caps, the Directors have taken into account (i) historical transaction amounts under the Previous Royalty Agreement for the two years ended 31 December 2020 and for the six months ended 30 June 2021 as set out below; (ii) the historical growth in retail sales of the Group's department stores and the supermarket chain stores; (iii) the recent market conditions and sales performance, (iv) the expected business growth of the Group in Hong Kong and the PRC and the addition of buffer to allow flexibility for the further increase in sales of the Group depending on the Group's business expansion plans and operational needs, and (v) the possibility of appreciation of the RMB.

Historical transaction amounts under the Previous Royalty Agreement:

Period	Annual Cap under Previous Royalty Agreement HK\$ million	Actual Transaction Amount HK\$ million	Utilization Rate of Annual Cap
1 January to 31 December 2019	40	26.5	66.25%
1 January to 31 December 2020	40	27.5	68.75%
1 January to 30 June 2021	40	13.4	33.50%

Based on available information, the Directors do not expect the actual transaction amount to exceed the existing annual cap for the year ending 31 December 2021.

The Directors consider that the historical transaction amounts for the Previous Royalty Agreement is only one of the factors in arriving at the proposed annual caps for the Royalty Agreement. The other factors such as the Group's business expansion plans take a heavier weight in the process of determining the proposed annual caps.

After the outbreak of COVID-19, rental rates have declined significantly in Hong Kong and more suitable sites are available for the Group to consider for the opening of new stores. As such, the Company intends to increase the average number of stores in Hong Kong and the PRC from 121.0 in 2021 to 214.0 in 2024 with an average of 31.5, 33.5 and 28.0 new stores to be opened in the following years respectively:

Year	No. of small stores	No. of Supermarkets/ GMS	Sub-total:
2022	23	8.5	31.5
2023	23.5	10	33.5
2024	17.5	10.5	<u>28</u>
		Total:	<u><u>93</u></u>

In addition new supermarkets and general merchandise stores (GMS) will be the main growth drivers for Total of Revenue. Therefore, as a combined effect, the Directors expect the year-on-year increase in the Total of Revenue to be about 6.7%, 8.3% and 7.4%, respectively.

Taking into account the above, the Directors consider that the annual caps for the Royalty Agreement are fair and reasonable.

REASONS FOR AND BENEFITS OF ENTERING INTO THE ROYALTY AGREEMENT

Pursuant to the Previous Royalty Agreement, the Company and its Affiliates (through the Company) has been granted various rights to use the Trade Marks and the Know-How. The Previous Royalty Agreement will expire on 31 December 2021. The Directors consider that the Trade Marks, which are well known in Hong Kong, Macau and the Guangdong Province of the PRC, are essential to the operations and success of the Group. In addition, the Know-How which comprises information and knowhow used, employed or developed by AEON for the management and operation of retail stores, wholesale business and related supporting facilities can also benefit the operations of the Group. The Directors therefore consider that the use of the Trade Marks by the Group would continue to benefit the business development and expansion of the Group in Hong Kong, Macau and the PRC. The Directors are of the view that the entering into of the Royalty Agreement would secure the continuing usage of the Trade Marks and the Know-How on terms reasonable to the Company and the renewal of the Previous Royalty Agreement is in the interest of the Company and its Shareholder as whole.

In consideration of the grant of the various rights above, the Group has to pay AEON the royalty fee but in arrears within 30 days after the Company's annual general meeting. The Group is also required to comply with AEON's rules, guidelines and the Know-How on the use of the Trade Marks and its business operations.

In respect of the royalty fee payable, the Company is not aware of directly comparable transaction on trademark licensing relating to general merchandise stores and supermarket stores in the market over the past 3 years. The royalty fee are determined after arm's length negotiation between the parties and such rates are the same as those under the Previous Royalty

Agreement. In addition, AEON only grants the right to use its trademarks to its subsidiaries for the operation of general merchandise stores and supermarket stores in the PRC charging at the same applicable rates which are regarded as exact and directly comparable transactions to the Royalty Agreement. It is thus considered on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

The terms of the Royalty Agreement have been reached after arm's length negotiations between the Company and AEON. The Directors, excluding the independent non-executive Directors whose view will be set out in the circular to be issued by the Company, are of the view that (i) the Royalty Agreement and the transactions contemplated thereunder are on normal commercial terms; (ii) the terms of the Royalty Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iii) the Royalty Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of the Company's business.

INTERNAL CONTROL

As part of the Group's internal control systems, the Company's Connected Party Transaction Panel, comprising the administration director, 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 Royalty Agreement. The Connected Party Transaction Panel generally holds meetings biweekly to review and monitor all continuing connected transactions of the Group. Whilst the finance departments of the relevant members of the Group will conduct the initial level of control over the transaction and the transaction amounts under the Royalty Agreements to ensure they are conducted within the frameworks and the annual caps of the Royalty Agreements. Where necessary, the Connected Party Transaction Panel will conduct biannual review of the transactions under the Royalty Agreement to ensure the transactions are conducted within the framework of the Royalty Agreement and monitor the utilization of the annual caps to ensure timely compliance with the requirements under Chapter 14A of the Listing Rules.

INFORMATION OF THE PARTIES

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

AEON is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. AEON'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.

IMPLICATIONS UNDER THE LISTING RULES

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

As the highest of the applicable percentage ratios in respect of the Annual Caps under of the Royalty Agreement is more than 5%, the transactions contemplated under the Royalty Agreement constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements and the 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 as to whether the terms of the Royalty Agreement and the annual caps of the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

CIRCULAR

A circular containing, among other things, (i) the details of the Royalty Agreement; (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 20 October 2021.

EGM

The Company will convene an EGM to seek approval from the Independent Shareholders in respect of the Royalty Agreement. In view of AEON's interests in the Royalty Agreement, AEON and its associates are required to abstain and shall abstain from voting on the resolutions to be proposed at the EGM to approve the Royalty Agreement and the annual caps of the transactions contemplated thereunder. Mr. Isei Nakagawa, Mr. Isao Sugawara, Mr. Takenori Nagashima, Mr. Shinya Hisanaga, Yuki Habu and Mr. Makoto Fukuda are shareholders, ex-employees and/or employees of AEON and are regarded as potentially having a material interest in the Royalty Agreement, they have accordingly abstained from voting on the relevant resolutions at the Board meeting convened to consider the Royalty Agreement. For the same reason, Mr. Isei Nakagawa, Mr. Takenori Nagashima, Mr. Shinya Hisanaga and Yuki Habu will also abstain from voting on the relevant resolutions as a shareholder of the Company at the EGM. Apart from the above persons, the Directors are not aware of any other shareholders of the Company 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.

“AEON”	AEON Co., Ltd., a company incorporated in Japan with limited liability and the issued shares of which are listed on the Tokyo Stock Exchange
“Affiliates”	with respect to a party, means all companies, firms, corporations or other entities which are either directly or indirectly controlling, controlled by or under common control with that party, provided that to the affiliates of the Company and its Affiliates shall not include AEON and companies owned or controlled by AEON other than the Company and companies directly or indirectly controlled by the Company, and, the Affiliates of AEON shall not include the Company and companies owned or directly or indirectly controlled by the Company
“Board”	board of Directors
“Business”	the (i) ownership or (ii) ownership and operation of retail business in the style of Multiple Category Stores and/or Special Supermarket Stores
“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 Precedents”	approval of the Royalty Agreement by the Company’s Independent Shareholders and compliance with all applicable requirements under the Listing Rules by the parties to the Royalty Agreement
“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
“Direct Sales Area”	(i) the floorspace where consumer merchandise is displayed; (ii) the floorspace occupied or utilised by facilities ancillary to and relating to the above and to which customers have access including corridors, cashier counters, customer service counters, sitting areas, washrooms and baby care rooms; and (iii) the floorspace licensed by the Company to third parties trading under their own names and/or their own account
“Director(s)”	the directors of the Company

“EGM”	the extraordinary general meeting of Shareholders to be held to consider resolutions relating to the Royalty Agreement and the transactions contemplated thereunder and any adjournment of such EGM
“EGM Notice”	the notice in respect of the EGM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Trade Marks”	the trademarks that are owned and registered by AEON in Hong Kong and licensed to the Company from time to time
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty, Mr. Chow Chi Tong and Mr. Hideto Mizuno
“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 transactions contemplated under the Royalty Agreement
“Independent Shareholders”	Shareholders other than those who have a material interest in the relevant Royalty Agreement
“Know-How”	all information and know-how (including that comprised in formulae, techniques, designs, specifications, drawings, manuals, instructions and catalogues) used, employed or developed by AEON from time to time for the management and operation of retail stores, wholesale business and related supporting facilities (as the same may from time to time be modified, improved, updated or amended)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region, PRC
“Macau Trade Marks”	the trademarks that are owned and registered by AEON in Macau and may be licensed to the Company from time to time

“Multiple Category Stores”	<p>a retail store that:</p> <p>(i) has within itself at least two of the following three categories, with a wide selection of consumer merchandise within each category:</p> <p>(a) clothing, shoes, and accessories;</p> <p>(b) household goods and day to day items excluding subparagraphs (a) and (c) of this definition but including toiletries, cosmetics, electrical and electronic appliances and goods, tools and hardware, and houseware; and</p> <p>(c) food items;</p> <p>(ii) occupies Direct Sales Area of more than 5,000 square meters</p>
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“PRC Trade Marks”	the trademarks that are owned and registered by AEON in the PRC and licensed to the Company from time to time
“Previous Royalty Agreement”	the technical assistance agreement entered into by the Company and AEON on 24 December 2018
“RMB”	renminbi, the lawful currency of the PRC
“Royalty Agreement”	the technical assistance agreement conditionally entered into between the Company and AEON on 30 September 2021
“Shareholder(s)”	registered holders of the shares in the Company from time to time
“Special Supermarket Stores”	a store that sells food items as the store’s major merchandise and occupies Direct Sales Area of more than 500 square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Territory”	Hong Kong and Macau
“Total of Revenue”	<p>the aggregate of:</p> <p>(i) the total amount of the direct sales of the Company and its Affiliates;</p> <p>(ii) the total amount of the sales of the respective concessionaires of the Company and its Affiliates; and</p> <p>(iii) the total amount of licensee fees and rentals received by the Company and its Affiliates from licensees and sub-tenants of the Company and its Affiliates,</p>

all attributable to the exclusive and non-exclusive rights granted by AEON to the Company to use the Trade Marks under the Royalty Agreement.

For the avoidance of doubt, discounts, refunds/return of goods and sales or purchases taxes or levies shall not form part of any of the items (i) to (iii) above for the purpose of this definition

“Trade Marks” the Hong Kong Trade Marks, Macau Trade Marks and PRC Trade Marks

“%” per cent.

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

Hong Kong, 30 September 2021

As at the date of this announcement, the Executive Directors are Mr. Isao Sugawara, Mr. Chak Kam Yuen, Mr. Takenori Nagashima and Mr. Shinya Hisanaga; the Non-executive Directors are Mr. Isei Nakagawa, Ms. Yuki Habu and Mr. Makoto Fukuda; 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.