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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
CONNECTED TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
THE MASTER SERVICES AGREEMENT**

The Board is pleased to announce that on 3 December 2019, the Company entered into the Master Services Agreement with AGSCM Japan in relation to the provision of the Services.

As at the date of this announcement, AGSCM Japan is a connected person of the Company by virtue of it being a non-wholly owned subsidiary of AEON Co, the controlling shareholder of the Company.

Pursuant to HKFRS 16, the entering into of the Master Services Agreement in respect of the use of Warehouses will require the Group to recognise the Warehouses as right-of-use asset of the Group. The acquisition of right-of use asset is an one-off transaction pursuant to the Listing Rules. As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of such right-of-use asset are 0.1% or more but less than 5%, the entering into of the Master Services Agreement in respect of the use of Warehouses constitutes an one-off connected transaction for the Company and is subject to the announcement requirement but are exempt from circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The entering into of the Master Services Agreement in respect of the Services other than the use of Warehouses constitutes a continuing connected transaction for the Company. As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Cap are 0.1% or more but less than 5%, the entering into of the Master Services Agreement in respect of the Services other than the use of Warehouses is subject to the announcement and annual review requirements but are exempt from circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. INTRODUCTION

The Board is pleased to announce that on 3 December 2019, the Company entered into the Master Services Agreement with AGSCM Japan in relation to the provision of the Services.

2. TERMS OF THE MASTER SERVICES AGREEMENT

Date

3 December 2019

Parties

(i) the Company; and

(ii) AGSCM Japan.

Term

The term of the Master Services Agreement shall be for a period commencing from the Effective Date and ending on 30 November 2022 (both days inclusive). The parties to the Master Services Agreement may, subject to compliance with the Listing Rules, renew the Master Services Agreement by written agreement.

Scope of Services

The AGSCM Group shall provide the following services to the Group:

Logistics services

The AGSCM Group shall transport merchandise (from suppliers) designated by the Group to locations designated by the Group and assist with related matters, including without limitation the distribution, storage (temporarily in the Warehouses in accordance with the Group's operational needs), handling and packaging of merchandise (in the quantity and assortment as designated by the Group), distribution, processing and the processing of logistics information.

Consultancy services

The AGSCM Group shall first identify issues and/or problems with the existing logistics systems of members of the Group. The AGSCM Group shall then provide proposals for and assistance with, handling and resolving the identified issues and/or problems.

Provision of Services

The Group selects providers for logistics and/or consultancy services with reference to prevailing market conditions and based on a procurement process conducted on arm's length basis, and makes their selection based on normal commercial considerations.

The relevant member of the Group may, in their sole and absolute discretion, engage service provider(s) to provide logistics and/or consultancy services. If the AGSCM Group is invited to tender, the relevant member of the Group will endeavor to invite quotations or tenders from at least two other independent third party suppliers for such services. The management of the relevant member of the Group will then compare the available quotations offered

by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. The relevant member of the Group will consider and compare the prices offered by the different bidders based on their respective monthly service fees. For logistics services, the manpower costs (based on fixed monthly rates that vary for the different personnel) and handling charges (based on fixed rates that vary depending on the type of merchandise involved and services provided) will also be considered. After considering the abovementioned factors, the management of the relevant member of the Group will then decide on which bidder to engage and enter into a service contract with for the provision of services. Before engaging the AGSCM Group to provide services, the Company will request the AGSCM Group to confirm that the terms offered to the Group will be no less favourable than those offered by the AGSCM Group to its other customers which are not members of the Group.

Where a member of the AGSCM Group is selected through the abovementioned procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AGSCM Group may from time to time (and AGSCM Japan shall procure such member of the AGSCM Group to) enter into separate contracts setting out the detailed terms under which the relevant member of the AGSCM Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on comparable terms to which the Company and/or the relevant member of the Group procures the Services from independent third parties.

Termination

The Master Services Agreement may be terminated by not less than three months' prior written notice by either party.

Termination of the Existing Master Services Agreement

As from the Effective Date, the Existing Master Services Agreement shall be terminated and superseded by the Master Services Agreement and all transactions, agreements and other documents entered into by the AGSCM China Group and the Group pursuant to the Existing Master Services Agreement shall be governed by the terms of the Master Services Agreement.

3. THE CAP AMOUNT IN RESPECT OF THE SERVICES OTHER THAN THE USE OF WAREHOUSES

The historical amounts of the transactions in respect of the Services including the use of Warehouses between the Group and the AGSCM Group for each of the two years ended 31 December 2018 were approximately RMB4.60 million and RMB3.10 million, respectively and for the six months ended 30 June 2019 was approximately RMB1.90 million.

The Cap for each of the following periods shall be:

Financial Year/Period	Annual Cap (RMB)
3 December 2019 to 31 December 2019	1.64 million
1 January 2020 to 31 December 2020	19.65 million
1 January 2021 to 31 December 2021	19.65 million
1 January 2022 to 30 November 2022	18.01 million

In arriving at the Cap, the Directors have taken into account various factors including the historical transaction amounts in respect of the actual services provided by the AGSCM Group in the past, the potential increases in both the service scope and the geographical scope of the Services including the use of Warehouses between the Group and the AGSCM Group and the expected business growth of the Group.

4. USE OF WAREHOUSES

Pursuant to HKFRS 16, the use of Warehouses pursuant to the Master Services Agreement during the term of the Master Service Agreement will require the Group to recognise the Warehouses as right-of-use assets of the Group in the aggregated amounts of approximately RMB12.5 million.

5. REASONS FOR AND BENEFITS OF THE TRANSACTION

The AGSCM Group has been providing the basic logistics services to the Group under the Existing Master Services Agreement and has become familiar with the Group's business operations. The Directors consider that the engagement of members of the AGSCM Group, which specialize in the provision of logistics related services and supply chain management, to provide the Services on a larger scale and in the ordinary and usual course of business, subject to members of the AGSCM Group being selected under the Group's procurement process, would allow the Group to further improve the efficiency of the Group's logistics system and enhance the Group's costs control.

The terms of the Master Services Agreement have been reached after arm's length negotiations between the Company and AGSCM Japan. The Directors (including the independent non-executive Directors) are of the view that (i) the entering into of the Master Services Agreement is in the ordinary and usual course of business of the Group; (ii) the terms of the Master Services Agreement are on normal commercial terms; and (iii) the terms of the Master Services Agreement and the Cap 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 Master Services Agreement, Ms. Yuki Habu, Mr. Isei Nakagawa, Mr. Masamitsu Ikuta, Mr. Takenori Nagashima and Mr. Akinori Yamashita were regarded as potentially having a material interest in the Master Services Agreement and accordingly abstained from voting on the relevant resolutions.

6. INFORMATION ON THE PARTIES

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

The AGSCM Group is principally engaged in the business of international cargo transport services, including cargo booking, consignment, packaging; supervision of the freight transport distribution, transfer; application for inspection; charging service; international multimodal transport and other international freight forwarding business; acting as domestic cargo transport agents; and provision of consultancy services in the PRC and Japan.

7. LISTING RULES IMPLICATIONS

As at the date of this announcement, AGSCM Japan is a connected person of the Company by virtue of it being a non-wholly owned subsidiary of AEON Co, the controlling shareholder of the Company.

Pursuant to HKFRS 16, the entering into of the Master Services Agreement in respect of the use of Warehouses will require the Group to recognise the Warehouses as right-of-use asset of the Group. The acquisition of right-of use asset is an one-off transaction pursuant to the Listing Rules. As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of such right-of-use asset are 0.1% or more but less than 5%, the entering into of the Master Services Agreement in respect of the use of Warehouses constitutes an one-off connected transaction for the Company and is subject to the announcement requirement but are exempt from circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The entering into of the Master Services Agreement in respect of the Services other than the use of Warehouses constitutes a continuing connected transaction for the Company. As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Cap are 0.1% or more but less than 5%, the entering into of the Master Services Agreement in respect of the Services other than the use of Warehouses is subject to the announcement and annual review requirements but are exempt from circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

8. DEFINITIONS

In this announcement, the following expressions have the respective meanings set out below unless the context requires otherwise:

“AEON Co”	AEON Co., Ltd., a company incorporated in Japan with limited liability, the issued shares of which are listed on the Tokyo Stock Exchange
“AGSCM China”	永旺環球（北京）國際貨運代理有限公司 (AEON Global SCM (Beijing) Co. Limited)), a company incorporated in the PRC and an indirect non-wholly owned subsidiary of AEON Co
“AGSCM China Group”	AGSCM China and its subsidiaries
“AGSCM Group”	AGSCM Japan and its subsidiaries including members of the AGSCM China Group

“AGSCM Japan”	AEON GLOBAL SCM Co., Ltd., a company incorporated in Japan and a non-wholly owned subsidiary of AEON Co
“Board”	the board of Directors
“Cap”	the maximum aggregate amount payable by members of the Group to members of the AGSCM Group in respect of the Services (other than the use of Warehouses) pursuant to the Master Services Agreement for each of the periods set out under Section 3 of this announcement
“Company”	AEON Stores (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability, the issued 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
“Directors”	the directors of the Company
“Effective Date”	3 December 2019
“Existing Master Services Agreement”	the master services agreement dated 16 June 2017 entered into between the Company and AGSCM China in respect of the provisions of the logistics and consultancy services by the AGSCM China Group to the Group, the details of which are set out in the Company’s announcement dated 16 June 2017
“Group”	the Company and its subsidiaries
“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accounts
“Hong Kong”	the Hong Kong Special Administrative Region, the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Services Agreement”	the master services agreement entered into between the Company and AGSCM on 3 December 2019
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Services”	such consultancy and logistics services to be provided by AGSCM Group under the Master Services Agreement, and such other services as may be agreed between the Company and AGSCM from time to time
“Shareholder(s)”	registered holders of the Shares from time to time
“Shares”	shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warehouses”	the warehouses of members of AGSCM Group in the PRC and Japan

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

Hong Kong, 3 December 2019

As at the date of this announcement, the Executive Directors are Mr. Isei Nakagawa, Mr. Chak Kam Yuen, Mr. Lau Chi Sum Sam and Mr. Takenori Nagashima; the Non-executive Directors are Ms. Yuki Habu and Mr. Akinori Yamashita; and the Independent Non-executive Directors are Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty, Mr. Chow Chi Tong and Mr. Hideto Mizuno.