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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 TENANCY AGREEMENT

The Board wishes to announce that on 23 November 2015, AEON Mall as lessor and AEON GD as lessee entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the Premises to AEON GD for a term of twenty (20) years from the Business Commencement Date.

As at the date of this announcement, AEON GD was held as to 65% by the Company. AEON Mall is an indirect subsidiary of AEON Co, the controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the annual caps in respect of the Tenancy Agreement exceed 0.1% but are below 5%, the transactions thereunder are subject to annual review and the applicable disclosure requirements under chapter 14A of the Listing Rules and are exempt from shareholders' approval requirements under chapter 14A of the Listing Rules.

1. INTRODUCTION

AEON Mall as tenant and the Building Developer as landlord entered into a tenancy agreement in respect of the Shopping Centre for a term of twenty (20) years, according to which AEON Mall is entitled to sublease the Shopping Centre.

The Board wishes to announce that on 23 November 2015, AEON Mall as lessor and AEON GD as lessee entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease a portion of the Shopping Centre (i.e. the Premises) to AEON GD for a term of twenty (20) years from the Business Commencement Date.

2. THE TENANCY AGREEMENT

- Date** : 23 November 2015
- Parties** : AEON Mall as lessor and AEON GD as lessee
- Premises** : Units B1F0078, 1F1008 and 2F2028 situated at Basement 1 and Basement 2, 1 Yayun Avenue, Dalong Street, Panyu District, Guangzhou, Guangdong, PRC
- Gross Floor Area** : Aggregate gross floor area of 22,554 square metres, comprising:
- (i) Unit B1F0078: 13,406 square metres;
 - (ii) Unit 1F1008: 4,695 square metres; and
 - (iii) Unit 2F2028: 4,453 square metres.

The aggregate gross floor area can be redefined by mutual consent of AEON GD and AEON Mall in light of AEON GD's operational needs.

- Use** : Department store, supermarket, restaurants, recreational facilities, provisional showrooms

- Term** : Twenty (20) years from the Business Commencement Date

- Termination and Renewal** : During the first five rental years, AEON GD may terminate the Tenancy Agreement by providing AEON Mall with six months' prior written notice and fixed compensation of RMB33.15 million. From the sixth rental year onwards, such compensation will no longer be required and AEON GD may terminate the Tenancy Agreement by providing AEON Mall with six months' notice.

AEON GD may renew the Tenancy Agreement by providing AEON Mall with written notice at least six months prior to the expiration of the Tenancy Agreement, subject to AEON Mall having obtained its right to sub-lease, parties' negotiation on the renewal terms and conditions and compliance with the Listing Rules.

- Rent** : Rent (exclusive of management fees and utilities expenses) payable by AEON GD shall comprise of:
- (i) Monthly rent calculated in accordance with rates (in RMB per square metre) set out in the Tenancy Agreement, which ranges from RMB34.0 per square metre per month during the first rental year and to be progressively increased periodically to RMB118.7 per square metre per month during the last rental year. After the fifth rental year, rates applicable to the sixth to tenth rental years shall be subject to review and adjustment by parties' mutual consent. After the tenth rental year, rates applicable to the eleventh to twentieth rental years shall be subject to further review and adjustment by parties' mutual consent. Monthly rent should be paid to AEON Mall in advance, before the tenth day of each month.
 - (ii) Annual commission calculated as 4.5% of the net balance (after deduction of taxes and duties on sales proceeds) between the actual sales proceeds of AEON GD derived from its operations at the Premises (not including parts of the Premises sublet to other parties, if any) and the benchmark sales proceeds set out in the Tenancy Agreement. Commission shall not be payable in respect of the first three years of the Tenancy Agreement. From the fourth rental year onwards, commission shall be payable before the fifteenth day of the first month of the following rental year.
- The rent payable under the Tenancy Agreement has been determined with reference to the prevailing market price for comparable premises in the area at the relevant time.
- Management fees** : Monthly management fee in respect of the Premises payable by AEON GD to the Property Management Company at a fixed rate of RMB10 per square metre, subject to review every three (3) years during the term of the Tenancy Agreement.
- Utilities expenses** : Utilities expenses (including water, electricity and air-conditioning) shall be payable by AEON GD based on its actual usage.
- Other fees** : AEON GD shall pay AEON Mall such other rent, usage charges and fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that AEON GD may from time to time rent or employ with the consent of AEON Mall (on the basis of actual usage).

- Rent free period** : Rent free period of sixty (60) days from the Business Commencement Date, during which AEON GD shall not be required to pay rent, but shall still be required to pay management fees and utilities expenses under the Tenancy Agreement.
- Deposit** : A deposit of RMB4,820,000 is payable by AEON GD to AEON Mall within fifteen (15) days upon signing of the Tenancy Agreement. Such deposit shall be refunded to AEON GD upon expiry or termination of the Tenancy Agreement, provided that there is no breach of the Tenancy Agreement by AEON GD.

3. OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

According to Rule 14A.52 of the Listing Rules, the duration of the Tenancy Agreement must not exceed three years except in special circumstances where the nature of the transaction requires the Tenancy Agreement to be of a duration which is longer than three years. Accordingly, Somerley has been appointed to explain why a longer period for the Tenancy Agreement is required and to confirm that it is normal business practice for agreements of such type to be of such duration.

In arriving at its opinion, Somerley has relied on the information set out in this announcement, the Tenancy Agreement and the existing lease agreements entered into between the Group and independent third parties. In considering whether it is normal business practice for agreements of a similar nature to the Tenancy Agreement to have a term of such duration, Somerley has identified and reviewed 42 comparable transactions involving the leasing of properties by retail chain stores or department stores or hypermarket operators (the “**Comparable Transactions**”). The Comparable Transactions selected by Somerley are based on the following criteria: (i) one of the parties to each of such transactions involves a company listed on the Stock Exchange; (ii) such transactions are publicly announced by way of announcement, circular, prospectus or annual report pursuant to the Listing Rules; and (iii) such transactions relate to the leasing of properties as hypermarkets or department stores by retail chain stores or department stores or hypermarket operators which remain effective as at the date of this announcement. Somerley notes that the terms of the Comparable Transactions range from 1 to 20 years, and 34 Comparable Transactions have a lease term for a minimum of 10 years, of which 15 of these Comparable Transactions have a lease term of 20 years. Accordingly, the duration of the Tenancy Agreement falls within the range of the tenure of the Comparable Transactions. On the basis of the above and having considered the duration of the existing lease agreements between members of the Group as lessee and the third parties as lessors which had durations ranging from 6 to 19 years with an option for the Company to extend the lease term of another 3 years, Somerley is of the view that it is normal and customary for retail chain stores or department stores or hypermarket operators to enter into a long lease with the landlord to ensure a smooth and stable operation and enable the Group to maximize the potential return on its investments (which includes initial set up costs and interior decoration). Somerley is of the opinion that the 20-year tenure under the Tenancy Agreement is a normal commercial term for a transaction of this nature and it is normal business practice for contracts of this type to be of such duration.

4. THE ANNUAL CAPS

It is estimated that the total amounts payable by AEON GD to AEON Mall under the Tenancy Agreement will not exceed the annual caps set out below:

Financial Year/ Period	23/11/2015– 31/12/2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Annual Caps (RMB millions)	4.5	25.0	27.1	30.6	34.4	37.9	40.6	45.7	49.6	51.8	
Financial Year/ Period	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Annual Caps (RMB millions)	54.0	56.7	57.8	60.8	62.0	63.3	67.2	69.1	71.0	75.5	77.6

The annual caps have been calculated based on the fixed rental and management fees payable by AEON GD under the Tenancy Agreement and the Company's estimation of the sales turnover, growth of business and other expenses of AEON GD, with reference to the performance of other stores of the Group, such other rent, usage charges and fees payable in relation to any provisional showrooms, storage areas, other facilities and special equipment that AEON GD may from time to time rent or employ with the consent of AEON Mall (on the basis of actual usage) and taking into account a certain margin of allowances.

5. REASONS FOR AND BENEFITS OF THE TENANCY AGREEMENT

The Company considers that the location of the Premises is suitable for the opening of a new AEON store, which at the same time expands the Group's store network and coverage as a whole. The Company is also of the view that with AEON Mall being a head tenant of the Shopping Centre, both the Premises and other parts of the Shopping Centre will be operated in accordance with similar AEON standards. This should generate an integrated shopping environment and as a result, provide excellent AEON services to the Group's customers and improve customer satisfaction.

The terms of the Tenancy Agreement are arrived at after arm's length negotiations between AEON Mall and AEON GD, and based on the information available to the Company, the Company understands that the principal terms of the Tenancy Agreement are no less favourable than the principal terms of the tenancy agreement between AEON Mall and the Building Developer with respect to the Premises. Based on (i) the abovementioned views of Somerley on the reasonableness of the duration of the Tenancy Agreement and (ii) the commercial reasons set out above, the Directors (including the independent non-executive Directors) are of the opinion that:

- (1) the transactions under the Tenancy Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group; and
- (2) such transactions and the 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 Tenancy Agreement, Mr. Yoshiaki Mizushima, Mr. Hideaki Yajima, Ms. Yuki Habu and Mr. Shinya Wako were regarded as potentially having a material interest in the Tenancy Agreement and accordingly abstained from voting on the relevant resolutions.

6. INFORMATION ON THE PARTIES

The Group is principally engaged in the operation of retail stores in Hong Kong, Macau and PRC. AEON Mall is principally engaged in development and leasing businesses.

7. LISTING RULES IMPLICATIONS

As at the date of this announcement, AEON GD is held as to 65% by the Company. AEON Mall is an indirect subsidiary of AEON Co, the controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the annual caps in respect of the Tenancy Agreement exceed 0.1% but are below 5%, the transactions thereunder are subject to annual review and the applicable disclosure requirements under chapter 14A of the Listing Rules and are exempt from 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 and the issued shares of which are listed on the Tokyo Stock Exchange
“AEON GD”	廣東永旺天河城商業有限公司(Guangdong AEON Teem Stores Co., Ltd.), a company incorporated in the PRC and owned as to 65% by the Company
“AEON Mall”	永旺夢樂城(廣東)商業有限公司, a company incorporated in the PRC under PRC laws and an indirect subsidiary of AEON Co
“Board”	the board of Directors of the Company
“Building Developer”	廣州榮雅投資有限公司, a company incorporated in the PRC under PRC laws
“Business Commencement Date”	the date on which AEON GD commences its operations at the Premises, which subject to completion of renovation work, is expected to be during the first quarter of 2016
“Company”	AEON Stores (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Stock Exchange
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Premises”	Units B1F0078, 1F1008 and 2F2028 situated at Basement 1 and Basement 2, 1 Yayun Avenue, Dalong Street, Panyu District, Guangzhou, Guangdong, PRC
“Property Management Company”	the company commissioned by AEON Mall to provide property management services for the Shopping Centre
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan
“Shopping Centre”	the premises at 1 Yayun Avenue, Dalong Street, Panyu District, Guangzhou, Guangdong, PRC
“Somerley”	Somerley Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 572, laws of Hong Kong), the independent financial adviser to the Company in respect of the duration of the Tenancy Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement”	the sub-tenancy agreement dated 23 November 2015 entered into between AEON Mall as lessor and AEON GD as lessee
“%”	per cent

By order of the Board of
AEON Stores (Hong Kong) Co., Limited
Chan Pui Man, Christine
Managing Director

Hong Kong, 23 November 2015

As at the date of this announcement, the executive Directors are Ms. Chan Pui Man, Christine, Mr. Yoshiaki Mizushima and Mr. Chak Kam Yuen and Mr. Hideaki Yajima; the non-executive Directors are Ms. Yuki Habu and Mr. Shinya Wako; and the independent non-executive Directors are Ms. Cheng Yin Ching, Anna, Ms. Chan Yi Jen Candi Anna and Ms. Lo Miu Sheung, Betty.