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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 THE MASTER PURCHASE AGREEMENT

The Group has, in the ordinary and usual course of its business, been engaged in certain merchandise transactions with the Merchandise Providers, all of which are subsidiaries of AEON Co.

The Board is pleased to announce that on 31 March 2016, the Company entered into the Master Purchase Agreement with TopV HK and TopV China, to better regulate the purchase of merchandise by the Group from the TopV Group going forward.

The Company is also currently in discussions with COX and G Foot, with a view to entering into similar master agreements. Further announcement(s) will be made by the Company as and when appropriate pursuant to the Listing Rules.

As at the date of this announcement, each of the Merchandise Providers is a connected person of the Company by virtue of its being a subsidiary of AEON Co, the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Master Purchase Agreement and the Proposed Master Agreements constitute/will constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Purchase Agreement and the Proposed Master Agreements are more than 5%, the transactions thereunder are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the GM to seek approval from the Independent Shareholders in respect of the transactions contemplated under the Master Purchase Agreement and the Proposed Master Agreements (if entered into) and the proposed annual caps. In view of AEON Co's interests in the Master Purchase Agreement and the Proposed Master Agreements (if entered into), AEON Co and its associates are required to abstain from voting on the relevant resolutions at the GM.

An Independent Board Committee of the Company will be formed to advise the Independent Shareholders in respect of the transactions contemplated under the Master Purchase Agreement and the Proposed Master Agreements (if entered into) and the proposed annual caps. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Master Purchase Agreement and the Proposed Master Agreements (if entered into), a letter from the Independent Board Committee, a letter from the independent financial adviser, and a notice to convene the GM will be dispatched to the shareholders of the Company on or about 21 April 2016 in compliance with the Listing Rules.

1. INTRODUCTION

The Group has, in the ordinary and usual course of its business, been engaged in certain merchandise transactions with the Merchandise Providers, all of which are subsidiaries of AEON Co.

The Board is pleased to announce that on 31 March 2016, the Company entered into the Master Purchase Agreement with TopV HK and TopV China, to better regulate the purchase of merchandise by the Group from the TopV Group going forward.

The Company is also currently in discussions with COX and G Foot, with a view to entering into similar master agreements. Further announcement(s) will be made by the Company as and when appropriate pursuant to the Listing Rules.

2. TERMS OF THE MASTER PURCHASE AGREEMENT

Date

31 March 2016

Parties

- (i) the Company;
- (ii) TopV HK; and
- (iii) TopV China.

Nature of Transactions

The Purchasers (i.e. the Company and any of its subsidiaries) will purchase a variety of merchandise from the TopV Group, including but not limited to AEON Co's "Topvalu" products, an in-house brand developed by AEON Co, and other branded products sourced by the TopV Group. Such merchandise covers a wide range of categories, such as fashion, food and household, and would then be sold to retail customers by the Group at its general merchandise stores and supermarket stores.

Pricing

The sale and purchase of merchandise between the parties will be charged on a cost-plus basis, representing all costs incurred in relation to the supply of the merchandise, including direct costs such as merchandises costs, freight costs, operational costs and other indirect or common costs allocated on a revenue or other equitable basis, plus a mark-up rate of not more than 15% of such costs. Subject to compliance with the Listing Rules, the parties may review and amend such mark-up rate on an annual basis by mutual consent.

The prices offered by the TopV Group shall be no less favourable than (i) prices available in the market for similar merchandises and (ii) prices offered by the TopV Group to their other purchaser(s), if any, save and except certain variance arising out of differences in relative location and actual freight costs applicable to a purchasing party.

Rebates

The TopV Group may, taking into account factors such as purchase volume, promotions from manufacturers, its budget, results and profits, grant rebates to the Purchaser(s) (as agreed mutually between the relevant parties) from time to time.

Purchase Contracts

The Purchaser(s) shall enter into specific purchase contracts with TopV HK and/or TopV china, which adopt the terms and conditions set out in the Master Purchase Agreement and the standard terms and conditions of the relevant Purchaser prevailing at the time of execution of such purchase contract. The 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 Group's sourcing of merchandises, which would enable the Group to efficiently provide its general merchandise stores and supermarket stores with required types and amounts of merchandise and maintain the competitiveness of its business, the Purchasers and the TopV Group 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 merchandises. The TopV Group shall, upon request by members of the Group and within a reasonable period of time, further provide such market information and data as may be required. Both the Company and the TopV Group have undertaken to keep all such information and data received or exchanged confidential.

In addition, the Purchasers shall have the right to audit, cross-check and verify the books, records, financial practice, business and operational flow and practice, electronic/computer system(s) of the TopV Group.

Term

The term of the Master Purchase Agreement shall be a period of 3 years ending 31 December 2018, provided that the parties to the Master Purchase Agreement may, subject to compliance with the Listing Rules, renew the Master Purchase Agreement. The Master Purchase Agreement shall take effect as of 1 January 2016.

Termination

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

3. THE CAP AMOUNT

The historical amounts of the transactions between members of the Group and the Merchandise Providers for the 3 years ended 31 December 2015 were approximately HK\$278,000,000, HK\$260,000,000 and HK\$294,000,000 respectively, of which transactions with the TopV Group accounted for approximately 98% and transactions with COX and G Foot accounted for approximately 2%.

Given the similarity in nature of the transactions under the Master Purchase Agreement and the Proposed Master Agreements, and that the Merchandise Providers are all subsidiaries of AEON Co, the Proposed Master Agreements, if entered into, would have to be aggregated with the Master Purchase Agreement.

Accordingly, the proposed annual caps for the continuing connected transactions under the Master Purchase Agreement and the Proposed Master Agreements for 3 years ending 31 December 2018 shall be as follows:

Period	Proposed annual cap (HK\$)
For the year ending 31 December 2016	402 million
For the year ending 31 December 2017	590 million
For the year ending 31 December 2018	815 million

In arriving at the proposed annual caps, the Directors have taken into account various factors including the historical transaction amounts between the Group and Merchandise Suppliers, historical growth in the retail business of the Group, expected business growth of the Group, possible further increase in purchases of the Group in light of the expected opening of new stores by the Group in the coming 3 years (depending on its business expansion plans, operational needs), and the fluctuation in foreign exchange rate(s).

4. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

As mentioned above, the Group has been engaged in merchandise transactions with the Merchandise Providers in its ordinary and usual course of business. Whereas the Group purchases a variety of merchandise from the TopV Group (or their predecessors) and COX, a consignment arrangement is in place between the Company's subsidiaries and G Foot whereby G Foot (as consignor) provides the Company's subsidiaries (as consignee) with merchandise for sale at its general merchandise stores in the PRC.

In view of the Group's strategy to continue and enhance co-operation with the Merchandise Providers and the Group's further expansion plans in China, going forward, the Company has entered into the Master Purchase Agreement with the TopV Group and intends to enter into the Proposed Master Agreements with COX and G Foot

to better regulate their existing merchandise transactions and determine a set of uniform terms for future transactions. The entering into of such master agreements should allow the Group to achieve economies of scale and differentiations from competitors.

The Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the circular, are of the view that (i) entering into of the Master Purchase Agreement is in the ordinary and usual course of business of the Group; (ii) the terms of the Master Purchase Agreement are on normal commercial terms; and (iii) the terms of the Master Purchase Agreement and the proposed 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 Master Purchase Agreement, Mr. Yoshiaki Mizushima, Mr. Hideaki Yajima, Ms. Yuki Habu and Mr. Shinya Wako were regarded as potentially having a material interest in the Master Purchase Agreement and accordingly abstained from voting on the relevant resolutions.

5. LISTING RULES IMPLICATIONS

As at the date of this announcement, each of the Merchandise Providers is a connected person of the Company by virtue of its being a subsidiary of AEON Co, the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Master Purchase Agreement and the Proposed Master Agreements constitute/will constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the proposed annual caps under the Master Purchase Agreement and the Proposed Master Agreements are more than 5%, the transactions thereunder are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

6. GM

The Company will convene the GM to seek approval from the Independent Shareholders in respect of the transactions contemplated under the Master Purchase Agreement and the Proposed Master Agreements (if entered into) and the proposed annual caps. In view of AEON Co's interests in the Master Purchase Agreement and the Proposed Master Agreements (if entered into), AEON Co and its associates are required to abstain from voting on the relevant resolutions at the GM.

An Independent Board Committee of the Company will be formed to advise the Independent Shareholders in respect of the transactions contemplated under the Master Purchase Agreement and the Proposed Master Agreements (if entered into) and the proposed annual caps. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Master Purchase Agreement and the Proposed Master Agreements (if entered into), a letter from the Independent Board Committee, a letter from the independent financial adviser, and a notice to convene the GM will be dispatched to the shareholders of the Company on or about 21 April 2016 in compliance with the Listing Rules.

7. INFORMATION ON THE PARTIES

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

The TopV Group is principally engaged in the development, procurement and supply of a variety of merchandise, including fashion, household and food items.

COX is principally engaged in the supply of a variety of fashion and household merchandise.

G Foot is principally engaged in the supply of a variety of shoes merchandise.

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
“associates”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“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
“COX”	芙嘉(上海)商貿有限公司, a company incorporated in the PRC and a subsidiary of AEON Co
“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
“G Foot”	新腳步(北京)商貿有限公司, a company incorporated in the PRC and a subsidiary of AEON Co
“GM”	a general meeting of the Company to be convened to consider and approve the Master Purchase Agreement, the transactions contemplated thereunder and the proposed 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 Ms. Cheng Yin Ching, Anna, Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty and Mr. Chow Chi Tong
“Independent Shareholders”	Shareholders other than AEON Co and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Purchase Agreement”	the master purchase agreement entered into between the Company, TopV HK and TopV China on 31 March 2016
“Merchandise Providers”	TopV China, TopV Hong Kong, COX and G Foot, each a subsidiary of AEON Co
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Proposed Master Agreements”	the master agreements to be entered into between the Company and/or its subsidiary(ies) and each of COX and G Foot respectively, in relation to their existing and future merchandise transactions
“Purchaser(s)”	the Company and any of its subsidiaries, each a “Purchaser”
“Shares”	shares of the Company
“Shareholders”	registered holders of the Shares from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TopV China”	AEON Topvalu China Co., Ltd, a company established in the PRC and a subsidiary of AEON Co
“TopV Group”	TopV China and TopV HK
“TopV HK”	AEON Topvalu (Hong Kong) Co., Ltd, a company incorporated in Hong Kong and a subsidiary of AEON Co

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

Hong Kong, 31 March 2016

As at the date of this announcement, the executive Directors are Ms. Chan Pui Man, Christine, Mr. Yoshiaki Mizushima, 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, Ms. Lo Miu Sheung, Betty and Mr. Chow Chi Tong.