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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 ROYALTY AGREEMENT

Reference is made to the announcement of the Company dated 29 December 2015 in relation to the Previous Royalty Agreement. The Previous Royalty Agreement will expire on 31 December 2018.

The Board is pleased to announce that on 24 December 2018 the Company entered into the Royal Agreement with the Adviser on substantially the same terms as the Previous Royalty Agreement. The term of the Royalty Agreement shall commence on 1 January 2019 for a period of three years.

As at the date of this announcement, the Adviser 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 each of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Cap is 0.1% or more but less than 5%, the transactions under the Royalty Agreement are subject to annual review and the applicable disclosure requirements under Chapter 14A of the Listing Rules and are exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. INTRODUCTION

Reference is made to the announcement of the Company dated 29 December 2015 in relation to the Previous Royalty Agreement. The Previous Royalty Agreement will expire on 31 December 2018.

The Board is pleased to announce that on 24 December 2018 the Company entered into the Royalty Agreement with the Adviser on substantially the same terms as the Previous Royalty Agreement.

2. THE ROYALTY AGREEMENT

The principal terms of the Royalty Agreement are as follows:

Date

24 December 2018

Parties

- (a) the Company; and
- (b) the Adviser.

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

The Adviser 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 the Adviser 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

The Adviser undertakes that, except with the prior written consent of the Company, neither the Adviser 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.

Term

The term of the Royalty Agreement shall commence on 1 January 2019 for a period of three (3) years expiring on 31 December 2021, unless terminated earlier in accordance with the terms of the Royalty Agreement. Subject to compliance with Listing Rules, the parties may renew the Royal Agreement.

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.

3. THE CAP AMOUNT

Historical figures

The historical transaction amounts in respect of the Previous Royalty Agreement for the two years ended 31 December 2017 and the six months ended 30 June 2018 were as follows:

Period	Annual cap HK\$ million	Fees payable by the Company to the Adviser under the Previous Royalty Agreement HK\$ million
Year ended 31 December 2016	49	27.2
Year ended 31 December 2017	49	27.9
Six months ended 30 June 2018	49	14.2

The Cap Amount

In respect of the Royal Agreement, the Cap for each of the three years ended 31 December 2021 shall be HK\$40 million. In arriving at the Cap, the Directors have taken into account various factors including the historical transaction amounts and the historical growth in retail sales of the Group's department stores and the supermarket chain stores, the expected business growth of the Group in Hong Kong and the PRC in the coming three years and the addition of buffer to allow flexibility for the further increase in sales of the Group in the coming three years depending on the Group's business expansion plans and operational needs, and the possibility that RMB will appreciate.

4. REASONS FOR AND BENEFITS OF THE ROYALTY AGREEMENT

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 the Adviser 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 use of the Trade Marks and the Know-How on terms reasonable to the Company.

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

5. LISTING RULES IMPLICATIONS

As at the date of this announcement, the Adviser is a connected person of the Company by virtue of 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 each of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Cap is 0.1% or more but less than 5%, the transactions under the Royalty Agreement are subject to annual review and the applicable disclosure requirements under Chapter 14A of the Listing Rules and are exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

6. INFORMATION ABOUT THE PARTIES

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

The Adviser is a public limited company incorporated in Japan and listed on the Tokyo Stock Exchange. The Adviser'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 service and other operations in Japan and other Asian countries.

7. DEFINITIONS

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

“Adviser”	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 the Adviser and companies owned or controlled by the Adviser other than the Company and companies directly or indirectly controlled by the Company, and, the Affiliates of the Adviser shall not include the Company and companies owned or directly or indirectly controlled by the Company
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the 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
“Cap”	the maximum aggregate amount of fees and expenses payable to the Adviser by the Company and/or its Affiliates pursuant to the Royalty Agreement in each of the three years ending on 31 December 2021
“Company”	AEON Stores (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability, the 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
“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 director(s) of the Company
“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
“Hong Kong Trade Marks”	the trademarks that are owned and registered by the Adviser in Hong Kong and licensed to the Company from time to time
“Independent Third Party”	a third party which, together with its beneficial owner(s) (if any) and to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is a third party independent of the Company and its connected persons of the Company in accordance with the Listing Rules
“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 the Adviser 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
“Macau”	the Macau Special Administrative Region, PRC
“Macau Trade Marks”	the trademarks that are owned and registered by the Adviser 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 or departments, with a wide selection of consumer merchandise within each category or department:</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 the Adviser 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 the Adviser on 29 December 2015
“RMB”	Renminbi, the lawful currency of the PRC
“Royalty Agreement”	the technical assistance agreement entered into between the Company and the Adviser on 24 December 2018
“Shares”	shares of the Company
“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 the Adviser 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, collectively

By Order of the Board of
AEON Stores (Hong Kong) Co., Limited
Yuki Habu
Chairman and Managing Director

Hong Kong, 24 December 2018

As at the date of this announcement, the Executive Directors are Ms. Yuki Habu, Mr. Masamitsu Ikuta, Mr. Chak Kam Yuen, Mr. Lau Chi Sum Sam and Mr. Keiji Tsukahara; the Non-executive Director is 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.