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## **AEON STORES (HONG KONG) CO., LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 984)**

### **CONTINUING CONNECTED TRANSACTIONS FRANCHISE ARRANGEMENT**

The Board announces that on 30 June 2008, Aeon Fantasy as franchisor and the Company as franchisee entered into the Franchise Agreement in respect of the Franchise Arrangement. As of the date of this announcement, Aeon Fantasy is owned as to 67.65% by Aeon Co, the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Franchise Agreement between Aeon Fantasy and the Company constitute continuing connected transactions for the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Franchise Arrangement exceed 0.1% but are below 2.5%, the Franchise Arrangement and the Franchise Agreement are subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules and exempt from the requirements of independent shareholders' approval.

#### **The Franchise Agreement**

Date: 30 June 2008

Parties: Aeon Fantasy (as franchisor)  
The Company (as franchisee)

Subject: Pursuant to the Franchise Agreement, Aeon Fantasy as franchisor has agreed to grant to the Company as franchisee the sole and exclusive right and licence to operate the Business in the Territory under certain Proprietary Marks in accordance with the System, details of the transactions are set out in the paragraph headed "Franchise Arrangement" below.

**Term:** The Franchise Agreement has a fixed term of three (3) years commencing on 30 June 2008 and ending on 29 June 2011 (the “**Term**”). The Franchise Agreement may be terminated prior to the expiry of the Term by either party giving not less than six (6) months’ prior written notice to the other party. Subject to compliance with the disclosure and/or other requirements under the Listing Rules and other laws and regulations then in force, the Company may at its option renew the Franchise Agreement with a further term of three (3) years on the same terms and conditions of the Franchise Agreement by giving a notice in writing to Aeon Fantasy exercising such option not less than six (6) months before the last day of the Term.

**Consideration:** The Company shall pay Aeon Fantasy (1) a franchise fee equal to 3% of the Sales arising out of the Business during each calendar month; and (2) the purchase prices of any game machines (including the administrative costs, warehouse charges, shipping/transfer costs incurred by Aeon Fantasy in connection with the provision of such game machines), tokens, prize/gift items, sales equipment and all other accessories and ornaments to be provided by Aeon Fantasy to the Company and/or its Affiliates in connection with the Franchise Arrangement as the parties may from time to time agree mutually.

### **Franchise Arrangement**

On 30 June 2008, Aeon Fantasy and the Company entered into the Franchise Agreement pursuant to which Aeon Fantasy granted the sole exclusive right and licence to the Company and its Affiliates (through the Company) by Aeon Fantasy to operate the Business in the Territory under certain Proprietary Marks in accordance with the System for a fixed term of three (3) years commencing on 30 June 2008 and ending on 29 June 2011. Should the Company exercise its option to renew the Franchise Agreement with a further term of three (3) years, the Company will comply with the disclosure requirements under Chapter 14A of the Listing Rules.

Pursuant to the terms of the Franchise Agreement, Aeon Fantasy agrees that the Company may enter into sub-franchise agreement with its Affiliates granting such Affiliates the right to operate the Business in the Territory under the Proprietary Marks in accordance with the System. Aeon Fantasy also agrees that they will not itself operate or make use of nor license nor otherwise allow or permit any person other than the Company to operate or make use of the System under the Proprietary Marks in the Territory.

The right and licence granted to the Company to operate the Business shall extend to the Premises in the Territory.

Pursuant to the terms of the Franchise Agreement, during the Term (and the extended Term, if any), Aeon Fantasy agrees and undertakes to the Company that Aeon Fantasy will at its own costs to provide such advice, services and information in relation to the operation of the Business by the Company including but not limited to:

- (1) provide the Company with adequate and sufficient:
  - (i) game machines at the price to be mutually agreed between the parties of which the said price shall also include the administrative costs, warehouse charges, overhaul charges, shipping/transfer costs incurred by Aeon Fantasy in connection with the provision of such game machines; and
  - (ii) tokens, prize/gift items, sales equipment and all other accessories and ornaments at cost price in support of the operation and continuation of the Business.
- (2) install, set-up and provide technical support, upgrade and maintenance of the game machines;
- (3) provide the Company with advice, instructions to use, know-how and guidance relating to the game machines, management, finance, promotion and methods of operation to be employed in connection with the System and provide reasonable facilities for consultation with the Company in connection with any problems relating to the System from time to time;
- (4) provide any requisite on-site assistance and advice in connection with the System or recommend to the Company such independent experts as may appear necessary; and
- (5) make available to the Company all services and facilities which Aeon Fantasy makes available to its other franchisees.

Pursuant to the terms of the Franchise Agreement, the Company shall pay Aeon Fantasy a franchise fee equal to 3% of the Sales arising out of the Business during each calendar month on each Payment Date. The franchise fee payable by the Company to Aeon Fantasy in respect of the Franchise Agreement are determined between the Company and Aeon Fantasy after arm's length negotiations, which is comparable to the rate offered by Aeon Fantasy to other third party franchisees.

Aeon Fantasy and the Company confirm and agree that for the four years ending 31 December 2011, the amount payable by the Company to the Aeon Fantasy under the Franchise Agreement shall not exceed the annual caps (the “**Annual Caps**”) below:

<b>Financial Year / Period</b>	<b>Annual Caps (HK\$)</b>
30 June 2008 to 31 December 2008	16,750,000
1 January 2009 to 31 December 2009	33,500,000
1 January 2010 to 31 December 2010	33,500,000
1 January 2011 to 29 June 2011	16,750,000

The Group has not entered into any prior transaction with Aeon Fantasy together with its ultimate beneficial owners which would require to be aggregated under Rule 14A.25 of the Listing Rules.

The Annual Caps are determined with reference to the anticipated monthly Sales of the Company and its Affiliates arising out of the Business and the anticipated price of game machines, tokens, prize/gift items, sales equipment and other consumables, if any, payable thereby. There is no previous transaction between the Company and Aeon Fantasy in respect of the operation of the Business. The anticipated monthly Sales of the Company and its Affiliates arising out of the Business is determined based on the business plan of the Company developed with reference to the business conducted by other in-door amusement game centres in Hong Kong and taking into account the factors including the locality of the game centres, customer flow and the attractiveness of the game machines.

The Directors, including all the independent non-executive Directors, consider that the terms of the Franchise Agreement and the Franchise Arrangement are on normal commercial terms which are fair and reasonable and in the interest of the Company and its shareholders as a whole and that the Franchise Agreement and the Franchise Arrangement are entered into in the ordinary and usual course of the Company’s business.

### **General**

Aeon Fantasy is owned as to 67.65% by Aeon Co, the controlling shareholder of the Company. Accordingly, the transactions under the Franchise Agreement between Aeon Fantasy and the Company constitute continuing connected transactions for the Company under the Listing Rules.

The principal activities of the Company are the operation of general merchandise stores.

The principal activities of Aeon Fantasy are the operation of in-door amusement centres under the trade name of “MOORRY FANTASY” in Japan.



companies is a connected person of the Company as defined in the Listing Rules as at the date of this announcement

“Board”	the board of Directors
“Business”	the franchise business of in-door amusements centres operated and conducted under the Proprietary marks using the System
“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
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Franchise Agreement”	the franchise agreement entered into between Aeon Fantasy and the Company on 30 June 2008
“Franchise Arrangement”	the transactions contemplated under the Franchise Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Payment Date”	within 30 days after the audited accounts of the Company for the financial year in respect of which the franchise fee is payable have been prepared and adopted by the Company
“PRC”	the People’s Republic of China

“Premises”	the premises at which the Company may operate the Business upon commencement of this Agreement or such other or new premises as the Company may from time to time inform Aeon Fantasy
“Proprietary Marks”	certain trade marks, trade names, whether or not registered or capable of registration and owned by or made available to Aeon Fantasy adopted or designated now or at anytime thereafter by Aeon Fantasy
“Sales”	the total amount of the tokens actually consumed by the customers in the Premises; and token is consumed when the customer inserts the token (which customers have already purchased from the Franchisee) into the gaming machines for enjoying the game
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“System”	the distinctive business format and method developed and implemented by Aeon Fantasy in connection with the operation of the Business, and certain standard operational procedures, plans, directions, specifications, methods, management and advertising techniques, know-how, information, slogans, copyrights, drawings, plans
“Territory”	Hong Kong, Macau and other locations within the Guangdong Province of the PRC to be mutually agreed by Aeon Fantasy and the Company where the Company may operate the Business
“%”	per cent

By Order of the Board  
**Lam Man Tin**  
*Managing Director*

Hong Kong, 4 July 2008

*As at the date of this announcement, the executive Directors of the Company are Mr. Lam Man Tin, Mr. Yutaka Fukumoto, Mr. Wong Mun Yu and Mr. Yutaka Agawa; the non-executive Directors are Mr. Akihito Tanaka, Mr. Masaaki Toyoshima and Mr. Kazumasa Ishii; and the independent non-executive Directors are Mdm. Lam Pei Peggy, Dr. Shao Kung Chuen, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna.*