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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)

CONTINUING CONNECTED TRANSACTIONS: THE AMENDMENT AGREEMENT AND THE CAP

The Board is pleased to announce that on 12 December 2006 the Company entered into the Amendment Agreement with the Adviser to amend the Technical Assistance Agreement and that, pursuant to Rule 14A.35(2), the Company has set the Cap of HK\$47 million as the maximum aggregate annual value of the fees and expense payable by the Company to the Adviser pursuant to the Amendment Agreement for each of the three years ending 31 December 2007, 31 December 2008, and 31 December 2009 respectively.

The substantive amendments to the Technical Assistance Agreement relate to:

- (i) proposed changes in the rights granted to the Company to use the trade marks owned by the Adviser;
- (ii) proposed changes in the terms of the Adviser's undertaking under the Technical Assistance Agreement not to compete with the Company;
- (iii) proposed changes in the duration of the Technical Assistance Agreement; and
- (iv) proposed changes in the basis for calculating the fee payable by the Company to the Adviser under the Technical Assistance Agreement.

The Adviser is the controlling shareholder of the Company and therefore a connected person, thus the Transaction constitutes a non-exempt continuing connected transaction of the Company under Rules 14A.16(5), 14A.17 and 14A.36(2) of the Listing Rules and is subject to the annual review, reporting and announcement requirements under Rules 14A.37 to 14A.40, 14A.45 and 14A.47 of the Listing Rules. In addition, both the Transaction and the Cap are subject to the approval of the Independent Shareholders pursuant to Rules 14A.17, 14A.36(2) and 14A.52 of the Listing Rules. The Directors (including the independent non-executive Directors, who will further render their opinion upon receipt of the opinion of the independent financial adviser) are of the view that (i) the entering into of the Transaction is in the ordinary and usual course of business of the Group and is in the interests of the Independent Shareholders and the Group as a whole; (ii) the terms of the Transaction are on normal commercial terms; and (iii) the terms of the Transaction and the Cap are fair and reasonable so far as the interests of the Independent Shareholders and the Group are concerned.

The Transaction and the Cap will be subject to the approval of the Independent Shareholders at the EGM by way of poll. The Adviser (which is interested in approximately 71.64% of the share capital of the Company as at the date of this announcement) and its associates will abstain from voting on the ordinary resolutions in respect of the Transaction and the Cap to be proposed at the EGM.

The Board has appointed the Independent Board Committee comprising Madam Lam Pei Peggy, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna to consider and advise the Independent Shareholders on the terms of the Transaction and the Cap.

A circular containing, among other things, further details of the Transaction and the Cap, the recommendation of the Independent Board Committee to the Independent Shareholders and the letter of advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

1. INTRODUCTION

The Technical Assistance Agreement was entered into between the Company and the Adviser on 31 December 1993 and has continued in force to date. The Technical Assistance Agreement was entered into to govern the provision of certain technical assistance by the Adviser to the Company and the grant by the Adviser to the Company of the right to use the trade marks owned by the Adviser and the System, in consideration for an annual fee paid by the Company to the Adviser.

The Board is pleased to announce that on 12 December 2006 the Company entered into the Amendment Agreement with the Adviser to amend the Technical Assistance Agreement and that, pursuant to Rule 14A.35(2), the Company has set the Cap of HK\$47 million as the maximum aggregate annual value of the fees and expense payable by the Company to the Adviser under the Technical Assistance Agreement as amended by the Amendment Agreement for each of the three years ending 31 December 2007, 31 December 2008, and 31 December 2009 respectively. The Cap of HK\$47 million represents approximately 0.9% of the Group's audited total turnover for the year ended 31 December 2005 of approximately HK\$5,503.4 million. In arriving at the Cap, the Directors have taken into account the expected business growth of the Group in Hong Kong and the PRC in the next three years ending 31 December 2009, the historical growth in retail sales of the department store and the supermarket chain stores, and the expected opening of new stores by the Group.

There were no caps under the Technical Assistance Agreement. For the three years ended 31 December 2005 and the 6 months ended 30 June 2006, the historical transaction amounts in respect of the Technical Assistance Agreement were as follows:

	Year ended 31 December 2003 HK\$'000	Year ended 31 December 2004 HK\$'000	Year ended 31 December 2005 HK\$'000	6 months ended 30 June 2006 HK\$'000
Amount of royalty incurred under the Technical Assistance Agreement	31,701	34,003	40,986	21,701

2. THE AMENDMENT AGREEMENT

On 12 December 2006, the Company and the Adviser entered into the Amendment Agreement.

2.1 Parties

The Company and the Adviser.

2.2 Terms

2.2.1 Substantive amendments to the Technical Assistance Agreement

- (1) proposed changes in the rights granted to the Company to use the trade marks owned by the Adviser

Under the existing Technical Assistance Agreement, the Company and its Affiliates are granted exclusive right to use, in relation to the business in operating general merchandise retail chain stores within Hong Kong, Macau and the Guangdong Province of PRC, all trade marks for goods and services, designs and insignia owned by the Adviser and used by the Adviser and/or its Affiliates on or in relation to their business and/or goods sold or services provided by the Adviser and/or its Affiliates.

Pursuant to the Amendment Agreement and in lieu of the aforesaid rights under the existing Technical Assistance Agreement, the Company and its Affiliates (through the Company) are granted:

- (a) exclusive right to use the Trade Marks in relation to the Business within the Territory;
 - (b) non-exclusive right to use the Trade Marks in relation to the Business within PRC; and
 - (c) non-exclusive right to use the Trade Marks in relation to:
 - (i) the provision of retail services;
 - (ii) the operation of Shopping Centres; and
 - (iii) catering services, food court with seating and restaurants, within the Territory and the PRC.
- (2) proposed changes in the terms of the Adviser's undertaking under the Technical Assistance Agreement not to compete with the Company

Under the existing Technical Assistance Agreement, the Adviser undertakes that, except with the prior written consent of the Company, neither the Adviser nor any of its Affiliates will:

- (a) use or permit any person other than the Company and its Affiliates any of the trade marks owned by the Adviser or its Affiliates on or in relation to business and/or goods and/or services competing in Hong Kong and/or Macau and/or the Guangdong Province of the PRC with the business of the Company and its Affiliates in operating general merchandise retail chain stores or
- (b) carry on or be engaged or interested in any business competing in Hong Kong and/or Macau and/or the Guangdong Province of the PRC with the business of the Company and its Affiliates in operating general merchandise retail chain stores.

Pursuant to the Amendment Agreement and in lieu of the aforesaid undertaking in the existing Technical Assistance Agreement, 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 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.

- (3) proposed changes in the duration of the Technical Assistance Agreement

Under the existing Technical Assistance Agreement, the entire Technical Assistance Agreement is renewable automatically on 1 March of each year for successive periods of one year indefinitely unless and until either the Adviser or the Company gives not less than 6 months' advance notice to the other party of its intention not to renew or unless and until it is otherwise terminated in accordance with its terms.

Pursuant to the Amendment Agreement and in lieu of the aforesaid renewal provisions in the existing Technical Assistance Agreement, the provisions in the Technical Assistance Agreement as amended by the Amendment Agreement shall cease to have effect on 31 December 2009 unless terminated earlier in accordance with its terms or by agreement in writing between the parties provided that the Technical Assistance Agreement as amended by the Amendment Agreement shall continue to be of effect for successive periods of three years each if prior to the expiry of the each such three year period the parties so agree and continuation shall be subject to compliance with the Listing Rules. Further, each of the Adviser and the Company will cease to have the right to terminate the Technical Assistance Agreement or any provisions thereof by notice to the other party prior to the expiry of any three year term unless the other party commits a continuing or material breach or ceases to or threatens to cease to carry on business or goes into liquidation or an encumbrancer takes possession or a receiver is appointed over any of its assets or property or makes any voluntary arrangements with its creditors.

- (4) proposed changes in the basis for calculating the annual fee payable by the Company to the Adviser under the Technical Assistance Agreement

Under the existing Technical Assistance Agreement, for each financial year of the Company, the Company shall pay to the Adviser an annual fee equal to the aggregate of:

- (a) 2% of the Revenue Total of Kornhill Store of the Company in that financial year; and
- (b) a fixed charge at the rate of HK\$14 per sq. ft. of the floor area of each of the stores (except Kornhill Store) operated by the Company and/or its Affiliates within Hong Kong and/or Macau and/or the Guangdong Province of the PRC, in each case pro rated to the number of days on which such stores has commenced business.

Pursuant to the Amendment Agreement and in lieu of the aforesaid calculation provisions in the existing Technical Assistance Agreement, for each financial year of the Company commencing on 1 January 2003, the Company shall pay to the Adviser an amount representing 0.4% of the audited consolidated Total of Revenue of the Company and its Affiliates in that financial year. The aggregate value of the annual fee payable to the Adviser under the Technical Assistance Agreement as to be amended by the Amendment Agreement on an annual basis for each of the percentage ratios (except for the profit ratio) under Chapter 14 of the Listing Rules is expected to be less than 2.5%.

2.2.2 *Other terms of the Amendment Agreement*

- (1) Condition precedent

The Amendment Agreement and the Cap are subject to, and shall become effective only upon the Amendment Agreement and the Cap being approved by the Independent Shareholders or upon the Stock Exchange confirming in writing that no such approval is required.

(2) Protective rights

Pursuant to the Amendment Agreement, the Adviser, as licensor of the Trade Marks, is given certain protective rights, which are customary for trade mark licensing agreements, to preserve and protect its proprietorship in the Trade Marks and all of the trade marks from time to time owned by the Adviser and its Affiliates. Such rights include the exclusive rights of the Adviser to claim ownership and apply for registration of all its trade marks, the right to set requirements and standards of quality for services provided by the Company under or by reference to the Trade Marks, the right to require the Company to make appropriate changes and corrections should the services provided by the Company under the Trade Marks not comply with the requirements of the Adviser, the right to give the Company directions with regard to use of the Trade Marks and the right to require the Company to cease any use of the Trade Marks that is not consistent with the requirements of the Adviser.

(3) Proposed execution of the Trade Mark Licence Contract

Solely for the purpose of recording the Company as a user of the PRC Trade Marks, the Company and the Adviser have agreed, pursuant to the terms of the Amendment Agreement, to enter into the Trade Mark Licence Contract as soon as practicable after the Amendment Agreement has become effective.

The Trade Mark Licence Contract will come into effect from the date of execution and will continue to have effect until the registration of the PRC Trade Marks at the China Trademark Office expires or the termination of the Technical Assistance Agreement, whichever is earlier. The Adviser has agreed to continue to renew the registration of the PRC Trade Marks and the registration of the Company as a registered user of the PRC Trade Marks while the Technical Assistance Agreement remains in force. The Company is not required to pay any fee to the Adviser under the Trade Mark Licence Contract.

(4) Application for registration of the Trade Marks and of the Company as user/licensee

The Amendment Agreement provides that the Adviser shall register all of the Trade Marks in the Territory and the PRC and shall register the Company and/or its Affiliates (as the case may be) as registered user or licensees of the Trade Marks provided that the Company and its Affiliates shall bear the reasonable costs of such registration as user(s) or licensee(s) and agree to handle the applications with the relevant registry.

3. INFORMATION ABOUT THE PARTIES

The Group is principally engaged in the operation of general merchandise stores in Hong Kong, Macau 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.

The Adviser is the controlling shareholder of the Company and as at the date of this announcement, the Adviser was interested in approximately 71.64% of the issued share capital of the Company.

4. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Directors have noted 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. The Directors 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 Amendment Agreement would facilitate the Group to achieve savings in the annual fee payable to the Adviser under the Technical Assistance Agreement, and would enable the Group's expansion into the retail sector in the regions of the PRC outside of Guangdong Province.

The terms of the Amendment Agreement have been reached after arm's length negotiations between the Company and the Adviser. The Directors (including the independent non-executive Directors, who will further render their opinion upon receipt of the opinion of the independent financial adviser) are of the view that (i) entering into of the Transaction is in the ordinary and usual course of business of the Group and is in the interests of the Independent Shareholders and the Group as a whole; (ii) the terms of the Transaction are on normal commercial terms; and (iii) the terms of the Transaction and the Cap are fair and reasonable so far as the interests of the Independent Shareholders and the Group are concerned and are in the interests of the Independent Shareholders and the Group as a whole.

5. GENERAL

The Transaction constitutes a non-exempt continuing connected Transaction of the Company under Rules 14A.16(5), 14A.17 and 14A.36(2) of the Listing Rules and is subject to the annual review, reporting and announcement requirements under Rules 14A.37 to 14A.40, 14A.45 and 14A.47 of the Listing Rules. In addition, both the Transaction and the Cap are subject to the approval of the Independent Shareholders pursuant to Rules 14A.17, 14A.36(2) and 14A.52 of the Listing Rules.

The Transaction and the Cap will be subject to the approval of the Independent Shareholders (by way of poll) at the EGM. The Adviser and its associates will abstain from voting on the ordinary resolutions on the Transaction and the Cap to be proposed at the EGM. The Company will comply with Rules 14A.35(3) and 14A.35(4) of the Listing Rules if the Cap is exceeded or when the Amendment Agreement is renewed or there is a material change to the terms of the agreement.

The Board has appointed the Independent Board Committee comprising Madam Lam Pei Peggy, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna to consider and advise the Independent Shareholders on the terms of the Transaction and the Cap.

A circular containing, among other things, further details of the Transaction and the Cap, the recommendation from the Independent Board Committee to the Independent Shareholders and the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction and the Cap, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

6. DEFINITIONS

In this announcement, the following expressions have the respective meanings set out below 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 to the Technical Assistance Agreement or the Amendment Agreement, 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 this term when referring to 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, when referring to the Adviser and its Affiliates, shall not include the Company and companies owned or directly or indirectly controlled by the Company
“Amendment Agreement”	the agreement entered into on 12 December 2006 between the Company and the Adviser to amend certain terms of the Technical Assistance Agreement
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“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 annual value for the fees and expenses payable to the Adviser by the Company of HK\$47 million pursuant to the Amendment Agreement for each of the three years ending 31 December 2007, 31 December 2008, and 31 December 2009, respectively
“Company”	AEON Stores (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which (Stock Code: 984) are listed on the Stock Exchange
“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 on their own account
“Directors”	the directors of the Company
“EGM”	the Extraordinary General Meeting to be held by the Company to consider and, if thought fit, to approve the Transaction and the Cap

“Group”	the Company and its subsidiaries
“Gross Profit”	with respect to any period, the turnover minus cost of sales, in each case in that period and in respect of the Kornhill Store as certified by the auditors of the Company
“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Hong Kong Trade Marks”	those Trade Marks that are registered in Hong Kong short particulars of which are contained in Part 1 of Schedule 2 to the Amendment Agreement
“Independent Board Committee”	An independent committee of the Board established to make recommendations to the Independent Shareholders in respect of the terms of the Transaction and the Cap
“Independent Shareholders”	Shareholders other than the Adviser and its associates who are required to abstain from voting on the ordinary resolutions in respect of the Transaction and the Cap at the EGM
“Kornhill Store”	the Company’s store at Kornhill Plaza, Quarry Bay, Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region, PRC
“Multiple Category Stores”	a retail store that has the characteristics set out below: <ul style="list-style-type: none"> (i) groups together within the store at least two of the three categories or departments referred to below, with a wide selection of consumer merchandise within each category or department. The three categories or departments referred to are: <ul style="list-style-type: none"> (a) clothing, shoes, and accessories; (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 (c) food items; (ii) occupies Direct Sales Area of more than 5,000 square meters
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan
“PRC Trade Marks”	those Trade Marks that are registered in the PRC short particulars of which are contained in Part 2 of Schedule 2 to the Amendment Agreement
“Rental Income”	with respect to any period, the amount of licence fees paid by licensees occupying space within the Kornhill Store (but excluding concessionaries) in that period as certified by the auditors of the Company
“Revenue Total”	with respect to any period, the Gross Profit plus Rental Income minus Staff Purchase Discount, in each case in that period and in respect of the Kornhill Store
“Shareholder(s)”	registered holders of the Shares from time to time
“Shares”	shares of par value HK\$0.10 each in the issued share capital of the Company
“Shopping Centres”	a commercial facility which contains a collection of stores including but not limited to retail stores and restaurants
“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
“Staff Purchase Discount”	with respect to any period, the value of the discount to the normal price of goods or services given in favour of the staff of the Company or its Affiliates in that period and in respect of the Kornhill Store as certified by the auditors of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“System”	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 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)

“Technical Assistance Agreement”	the agreement entered into on 31 December 1993 between the Company and the Adviser for the provision by the Adviser to the Company of technical assistance including the right to use certain trade marks of the Adviser and the System in consideration of an annual fee paid by the Company to the Adviser
“Territory”	Hong Kong and Macau
“Total of Revenue”	(i) the amount of the “turnover” stated in the Company’s annual audited consolidated income statement plus (ii) the amount of the “other income” stated in the Company’s annual audited consolidated income statement but deducting therefrom such incomes not from licensees/sub-tenants of the Company and its Affiliates (i.e. operating revenue) and (iii) minus such items of the “turnover” and “other income” not originating from business carried on by the Company and/or its Affiliates under the Trade Marks
“Trade Marks”	(i) the trade marks ÆON , 永旺 and JUSCO registered by the Adviser in Hong Kong in classes 35 and 42 short descriptions of which are contained in Part 1 of Schedule 2 to the Amendment Agreement; (ii) the trade marks ÆON , 永旺 and JUSCO registered by the Adviser in the PRC in classes 35 and 42 short descriptions of which are contained in Part 2 of Schedule 2 to the Amendment Agreement; (iii) the trade marks ÆON , and JUSCO registered by the Adviser in Macau in classes 35 and 42 short descriptions of which are contained in Part 3 of Schedule 2 to the Amendment Agreement; and (iv) such other trade marks that are owned and registered by the Adviser in the Territory and the PRC and may be licensed to the Company from time to time
“Trade Mark Licence Contract”	the trade mark licence contract to be entered into between the Company and the Adviser relating to the use by the Company in the PRC of the PRC Trade Marks in substantially the form attached as Schedule 3 to the Amendment Agreement
“Transaction”	the Amendment Agreement and the transactions contemplated thereunder

On behalf of the Board
Lam Man Tin
Managing Director

Hong Kong, 12 December 2006

As at the date of this announcement, the executive directors of the Company are Mr. Lam Man Tin, Mr. Yutaka Fukumoto and Mr. Wong Mun Yu; the non-executive directors are Mr. Toshiji Tokiwa, Mr. Akihito Tanaka, Mr. Tatsuichi Yamaguchi and Mr. Naoyuki Miyashita; and the independent non-executive directors are Mdm. Lam Pei Peggy, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna.

Please also refer to the published version of this announcement in The Standard.