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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 TRANSACTION

The Board would like to announce that on 10 November 2006, Teem Holding as landlord and GD Jusco as tenant entered into the Tenancy Agreement, pursuant to which Teem Holding has offered GD Jusco a tenancy in respect of the Premises for the terms as stipulated in the Tenancy Agreement.

As at the date of this announcement, GD Jusco was held as to 65% and 35% by the Company and Teemall Department Stores respectively. The Premises, being the subject of the Tenancy Agreement, is owned by Teem Holding which is the holding company of Teemall Department Stores. Accordingly, Teem Holding is a connected person of the Company under the Listing Rules and the entering into of the Tenancy Agreement constitutes a continuing connected transaction for the Company.

As the relevant percentage ratios in respect of the annual cap of the rent, management fees and utilities expenses payable by the Company to Teem Holding and Teem Properties during the term of the Tenancy Agreement are more than 0.1% but less than 2.5%, the entering into of the Tenancy Agreement and the transactions contemplated thereunder are exempted from independent shareholders' approval but are subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

THE TENANCY AGREEMENT

Date

10 November 2006

Landlord

Teem Holding

Tenant

GD Jusco

Premises

GD JUSCO Teem Plaza Store which is situated at Basement 1, Teem Plaza, 208 Tianhe Road, Guangzhou, PRC as detailed in the Tenancy Agreement

Lease term

1 July 2006 to 30 June 2013

Rent, management fees and utilities expenses

Pursuant to the Tenancy Agreement, GD Jusco entered into a management agreement with Teem Properties, a subsidiary of Teem Holding, for the management of the Premises. Under the management agreement, the management fees and utilities expenses (including water, electricity and gas, if any) shall be payable by GD Jusco to Teem Properties.

GD Jusco shall pay rental deposit of RMB3,300,000 to Teem Holding which shall be refunded without interest to GD Jusco within 15 days from the expiry or early termination of the Tenancy Agreement given there is no breach of the agreement by GD Jusco. Management fees and utilities expenses shall be subject to overall adjustment for the plaza by Teem Properties or adjustment by the respective utility companies from time to time.

The terms of the Tenancy Agreement, including the rent, management fees and the utilities expenses, are arrived at after arm's length negotiation between GD Jusco and Teem Holding with reference to the prevailing market price for comparable premises in the area at the relevant time. Set out below is the agreed rent and estimated management fees and utilities expenses payable by GD Jusco to Teem Holding and Teem Properties during the term of the Tenancy Agreement:

Period	Agreed rent per calendar month (HK\$)	Estimated management fees and utilities expenses per calendar month (RMB)	Aggregated annual amount payable (HK\$)
(i) From 1 July 2006 to 30 June 2009			
1 July 2006 – 30 June 2007	2,493,180	857,505	40,414,021
1 July 2007 – 30 June 2008	2,493,180	900,380	40,938,811
1 July 2008 – 30 June 2009	2,493,180	945,399	41,489,844
(ii) From 1 July 2009 to 30 June 2011			
1 July 2009 – 30 June 2010	2,617,839	992,669	43,564,337
1 July 2010 – 30 June 2011	2,617,839	1,042,302	44,171,844
(iii) From 1 July 2011 to 30 June 2013			
1 July 2011 – 30 June 2012	2,748,731	1,094,417	46,380,436
1 July 2012 – 30 June 2013	2,748,731	1,149,138	47,050,221

OPINION FROM INDEPENDENT FINANCIAL ADVISER

According to Rule 14A.35(1) of the Listing Rules, the duration of the Tenancy Agreement must not exceed three years, except in special circumstances which are limited to cases where the nature of the transaction requires the Tenancy Agreement to be of a duration which is longer than three years. In accordance with the requirement of Rule 14A.35(1) of the Listing Rules, Taifook 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.

Taifook has reviewed publicly available information regarding the duration of the leases of the properties leased by other department stores in the PRC as provided by the Valuer and noted that leases of large-scale department store operations in the PRC typically have duration of 10 to 20 years. As such, Taifook concurred with the Directors' view that the business nature of the Company requires it or its subsidiaries to enter into long-term leases given that:

- (i) the long-term nature of the Tenancy Agreement will enable GD Jusco to secure a location in Guangzhou, the PRC and prevent unnecessary cost, effort, time and interruption of business caused by relocation in the short run;
- (ii) the long-term nature of the Tenancy Agreement will prevent the recurrence of initial investment costs such as initial set up cost and interior decoration in the short run;
- (iii) a new rental space for department store operation will not guarantee that the customer base and the business performance of the existing department store on the Premises can be sustained;
- (iv) GD Jusco needs to secure a long-term lease for a Premises to attract retail consignors or concessionaries, and subtenants, which is in line with its business model; and
- (v) long-term nature of the Tenancy Agreement may enhance both customers' loyalty and maintain stable sales revenues for GD Jusco.

Based on the above, Taifook is of the view that it is fair and reasonable for GD Jusco to enter into the Tenancy Agreement with long-term duration and that it falls within normal business practice in the PRC for a lease of this type to be of long-term duration.

THE CAP AMOUNT

Pursuant to Rule 14A.35(2) of the Listing Rules, an annual cap of HK\$47.5 million has been set during the period from financial year ending 31 December 2007 to financial year ending 31 December 2013. Such annual cap is set based on the amounts of agreed rent and the estimated management fees and utility expenses payable by the Company to Teem Holding and Teem Properties during the term of the Tenancy Agreement.

REASONS FOR AND BENEFIT OF THE TENANCY AGREEMENT

The previous tenancy agreement for the Premises has a term of 10 years and 5 months, commencing from 1 February 1996 to 30 June 2006. The rental paid for the period from 1 July 2003 to 30 June 2004, 1 July 2004 to 30 June 2005 and 1 July 2005 to 30 June 2006 were RMB31,641,172, RMB33,087,710 and RMB35,223,839, respectively. GD Jusco has operated the department store on the Premises since 1996, which has successfully accumulated a substantial valuable customer base and achieved satisfactory business results during the past few years. The Board considers that the renewal of tenancy of the Premises is essential for the Group to maintain a relatively stable operating environment for its department store in Guangzhou, the PRC.

Based on the opinion of the Valuer that (i) the duration of the term of the Tenancy Agreement was in line with the normal business practice and (ii) the rentals payable were in line with the prevailing market rates, the Directors (including the independent non-executive Directors) are of the opinion that the terms of the Tenancy Agreement are on normal commercial terms and no less favourable to the Group than those available to independent third parties, the terms of the Tenancy Agreement and the Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the transactions under the Tenancy Agreement are in the ordinary and usual course of business of the Group.

INFORMATION ON THE GROUP AND TEEM HOLDING

The Group is principally engaged in the operation of general merchandise stores in Hong Kong, Macau and PRC. As at the date of this announcement, the Group operated (i) seven general merchandise stores, two supermarkets and eleven “HK\$10 Plaza” in Hong Kong; and (ii) ten general merchandise stores and one shopping center in Guangdong Province, PRC.

Teem Holding and its subsidiaries are principally engaged in property investments, investment holdings, retailing, advertising, hotel investment and construction business.

GENERAL

As at the date of this announcement, GD Jusco was held as to 65% and 35% by the Company and Teemall Department Stores respectively. The Premises, being the subject of the Tenancy Agreement, is owned by Teem Holding which is the holding company of Teemall Department Stores. Accordingly, Teem Holding is a connected person of the Company under the Listing Rules and the entering into of the Tenancy Agreement constitutes a continuing connected transaction for the Company.

As the relevant percentage ratios in respect of the annual cap of the rent, management fees and utilities expenses payable by the Company to Teem Holding and Teem Properties during the term of the Tenancy Agreement are more than 0.1% but less than 2.5%, the entering into of the Tenancy Agreement and the transactions contemplated thereunder are exempted from independent shareholders’ approval but are subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules. An announcement should have been made at the time when entering into the Tenancy Agreement. However, due to change of management in GD Jusco in April 2006, GD Jusco executed the Tenancy Agreement in November 2006 without immediately notifying the Company. Upon becoming aware of the execution of the Tenancy Agreement in June 2007, the Company took immediate steps to engage an independent financial adviser and Valuer to review and opine on the terms of the Tenancy Agreement. In addition, the Company has stepped up its monitoring and reporting procedures by (i) carrying out discussions with the management of GD Jusco and other subsidiaries with a particular emphasis on the importance of adhering to the requirements stipulated in the Listing Rules; (ii) reviewing the internal reporting and compliance system within the Group; (iii) arranging for seminars and training sessions for management of the Group to ensure that they are up-to-date with the requirements stipulated in the Listing Rules; and (iv) requiring all subsidiaries involved in continuing connected transactions to report to the management on a regular basis. The Company will continuously monitor and review the connected transactions and will comply with the requirements set out in Chapter 14A of the Listing Rules.

DEFINITIONS

“Board”	the board of Directors
“Cap”	The maximum aggregate annual value for the rent, management fees and utility expenses payable by GD Jusco to Teem Holding and/or its subsidiaries pursuant to the Tenancy Agreement
“Company”	Aeon Stores (Hong Kong) Co., Limited (Stock Code: 984), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“GD Jusco”	Guangdong Jusco Teem Stores Co., Ltd., a sino-foreign equity joint venture in the PRC which is held as to 65% by the Company and 35% by Teemall Department Stores
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“Premises”	GD JUSCO Teem Plaza Store which is situated at Basement 1, Teem Plaza, 208 Tianhe Road, Guangzhou, PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taifook”	Taifook Capital Limited, a licensed corporation to carry on Type 6 regulated activity (advising on corporate finance) under the SFO and the independent financial adviser to the Company in respect of the duration of the Tenancy Agreement
“Teemall Department Stores”	Guangdong Teemall Department Stores Holdings Limited (廣東天河城百貨發展有限公司), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of Teem Holding
“Teem Holding”	Guangdong Teem (Holdings) Limited (廣東天河城(集團)股份有限公司), a company incorporated in the PRC with limited liability which is the holding company of Teemall Department Stores and the landlord of the Premises

“Teem Properties”	Guangdong Teem Properties Management Limited (廣東天河城物業管理有限公司), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of Teem Holding
“Tenancy Agreement”	the tenancy agreement dated 10 November 2006 entered into between GD Jusco as tenant and Teem Holding as landlord
“Valuer”	Savills Valuation and Professional Services Limited, an independent valuer
%	per cent.

For the purposes of illustration only, amounts denominated in Renminbi have been translated into Hong Kong dollars at the exchange rate of RMB1.00 = HK\$1.02. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

By Order of the Board
Lam Man Tin
Managing Director

Hong Kong, 21 June 2007

As at the date of this announcement, the executive Directors 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 Madam 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.