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)

CONNECTED TRANSACTION

The Board would like to announce that on 18 January 2008, the Company entered into the S&P Agreement with the Vendors, pursuant to which the Company has conditionally agreed to acquire from the Vendors the Equity Interests, which represent 35% of the entire registered capital of AEON Shenzhen, at an aggregate consideration of RMB94.5 million.

As at the date of this announcement, AEON Shenzhen was owned as to 65% by the Company, as to 25.01% by Friendship and as to 9.99% by Centralcon. Immediately after the Completion, AEON Shenzhen will become a wholly-owned subsidiary of the Company.

As Friendship is a substantial shareholder of AEON Shenzhen and therefore is a connected person of the Company under Chapter 14A of the Listing Rules, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to independent Shareholders' approval at the extraordinary general meeting according to Rule 14A.17 of the Listing Rules. As no Shareholders will be required to abstain from voting for the Acquisition and AEON Co., which beneficially owns approximately 71.64% of the issued share capital of the Company as at the date of this announcement, has undertaken to vote in favour of the Acquisition, the Company has applied to the Stock Exchange pursuant to Rule 14A.43 of the Listing Rules for a waiver from the requirement under the Listing Rules for the Company to hold an extraordinary general meeting to seek Shareholders' approval in respect of the S&P Agreement and the transactions contemplated thereunder.

An independent board committee of the Company will be formed to advise the independent Shareholders in relation to the S&P Agreement and the respective transactions contemplated thereunder. An independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in respect of the terms of the S&P Agreement and the respective transactions contemplated thereunder.

A circular containing, among others, (a) further information on the S&P Agreement; (b) the letter of advice from the independent financial adviser to the independent board committee of the Company in relation to the S&P Agreement and the respective transactions contemplated thereunder; and (c) the letter of recommendation from the independent board committee of the Company to the independent Shareholders in relation to the S&P Agreement and the respective transactions contemplated thereunder, will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

THE S&P AGREEMENT

Date:	18 January 2008
Parties:	
(a) as vendors:	Friendship Centralcon
(b) as purchaser:	the Company
Interests being acquired:	35% equity interest in AEON Shenzhen, of which 25.01% will be acquired from Friendship and 9.99% will be acquired from Centralcon
Consideration:	The Consideration of RMB94.5 million (equivalent to approximately HK$101.1 million) will be paid in cash in proportion to the Vendors' respective equity interests in AEON Shenzhen and be fully settled within eight business days from Completion. The consideration was arrived at after arm's length negotiation with reference to the business prospects of AEON Shenzhen and the price to book ratio of the Acquisition as detailed in the section headed "Reasons for and benefits of the acquisition" below, and the unaudited net assets value of AEON Shenzhen as at 30 November 2007 as adjusted by the capital injection amounting to RMB4.8 million (approximately HK$5.1 million) of AEON Shenzhen made in cash by the Company and the Vendors in proportion to their respective shareholding in AEON Shenzhen as at the date of this announcement in January 2008. The Group will finance the Consideration from its internal resources.
Conditions precedent:	Completion shall be, among others, conditional upon: (A) the Company having obtained the approval of the Shareholders (other than those, if any, who are required to abstain from voting under the Listing Rules) in respect of the S&P Agreement and the transactions contemplated thereunder;

(B) the Vendors having agreed to transfer all ownership, rights and benefits attributable to their respective paid up registered capital in AEON Shenzhen and having signed all necessary documents in relation to the transfer of the relevant interests in AEON Shenzhen; and

(C) the Company having obtained all the necessary approval(s) or consent(s) from all relevant authorities in the PRC for the transactions contemplated under the S&P Agreement.

If any of the conditions precedent has not been fulfilled within 6 months from the date of the S&P Agreement, either the Company or the Vendors shall be entitled to terminate the S&P Agreement by giving written notice to the other.

Completion: Subject to the fulfillment of the conditions precedent set out in the S&P Agreement, Completion shall take place on the day on which the Vendors have provided to the Company the relevant documents as set out in the S&P Agreement including, among others, the notice confirming all the conditions precedent have been fulfilled.

INFORMATION ON AEON SHENZHEN

AEON Shenzhen is a company incorporated in the PRC in 2002 with limited liability and was owned as to 65% by the Company, 25.01% by Friendship and 9.99% by Centralcon as at the date of this announcement. As at the date of this announcement, AEON Shenzhen operates five general merchandise stores in Shenzhen. Immediately after the Completion, AEON Shenzhen will become a wholly-owned subsidiary of the Company.

The following table sets out the unaudited management accounts of AEON Shenzhen for the two years ended 31 December 2006 and the 11 months ended 30 November 2007:

	Year ended 31 December		**11 months ended 30 November**
	2005	**2006**	**2007**
	HK$ million	*HK$ million*	*HK$ million*
Revenue	184.1	290.7	362.8
Loss before taxation	(12.5)	(9.8)	(1.1)
Loss after taxation	(12.5)	(9.8)	(1.1)

As at 30 November 2007, AEON Shenzhen had unaudited net assets value of approximately HK$18.5 million, and unaudited net assets value of approximately HK$23.6 million as adjusted by the capital injection amounting to RMB4.8 million (approximately HK$5.1 million).

INFORMATION ON THE VENDORS

Friendship was incorporated in the PRC as a limited liability company and is principally engaged in retail industry as an operator of department stores in the PRC. As Friendship is a substantial shareholder of AEON Shenzhen and therefore is a connected person of the Company under Chapter 14A of the Listing Rules.

Centralcon was incorporated in the PRC as a foreign investment enterprise and is principally engaged in development of real estate in the PRC. Centralcon is an Independent Third Party.

Friendship and Centralcon were shareholders of AEON Shenzhen since its establishment. The Equity Interests were not acquired interests by Friendship and Centralcon but rather the respective capital contribution by Friendship and Centralcon to the registered capital of AEON Shenzhen of RMB14,955,980 and RMB5,974,020 respectively.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the operation of general merchandise stores in Hong Kong, Macau and the PRC. As at the date of this announcement, the Group operated (i) six general merchandise stores, three supermarkets, twelve "HK$10 Plaza" and two "Bento Express" in Hong Kong; and (ii) eleven general merchandise stores and one shopping center in Guangdong Province, the PRC.

As mentioned in the Company's annual report for the year ended 31 December 2006, the strong retail market sentiment in the PRC provided a positive backdrop for the Group's business. The PRC retail market also benefited from the favourable macroeconomic environment which continues to flourish and drives the growth of the retail industry. The Group believes that general merchandise stores of AEON Shenzhen will benefit from customer's robust demand for quality merchandise and services. In addition, the Directors also consider that there is a promising outlook of the retail industry in Shenzhen. As such, the Directors consider that the business of AEON Shenzhen has good business potential and accordingly it is beneficial for the Group to increase its interests in AEON Shenzhen.

The Directors consider that the historical loss of AEON Shenzhen for the years ended 31 December 2005 and 2006 and the 11 months ended 30 November 2007 was mainly due to the third and the fourth stores only commenced operation in September 2005 and April 2007 respectively. Notwithstanding that AEON Shenzhen has been making losses, the Directors consider that the financial results of AEON Shenzhen had actually improved during the two years ended 31 December 2006, and the loss after taxation of AEON Shenzhen for the 11 months ended 30 November 2007 has been significantly reduced following four of its stores commenced their operations for a number of years.

The Directors noted that the Consideration, which represented approximately 12.2 times over the attributable unaudited net assets value of AEON Shenzhen as at 30 November 2007 as adjusted by the capital injection of AEON Shenzhen made in January 2008, is comparable to those of a number of companies which are mainly engaged in the department stores business in the PRC.

Over the years, the Group has experienced occasional difficulties in reaching consensus with the Vendors on business decisions and strategies for AEON Shenzhen such as decisions on layout of merchandise, locations and pace of expansion of new stores. The Directors believe that the Acquisition enables the Company to have full control over AEON Shenzhen and therefore its business and operational decisions will be implemented more effectively.

Moreover, after having full control over AEON Shenzhen, the Directors consider that the Company can integrate certain operational functions of AEON Shenzhen with that of the Group which can result in cost savings, especially in regional office administration and inventories management, by way of rationalization in various areas of the businesses to achieve improvement in logistics efficiency, economies of scale of operation and stronger bargaining power with suppliers. Synergy is also expected in the form of complementary marketing and promotional strategies. Given the reasons above and the robust retail market in Shenzhen, the Directors expect that the financial performance of AEON Shenzhen would be further improved after Completion.

Based on the above, the Directors consider that the terms and conditions of the S&P Agreement, including the Consideration, are fair and reasonable and in the interests of the Group and the independent Shareholders as a whole.

GENERAL

As Friendship is a substantial shareholder of AEON Shenzhen and therefore is a connected person of the Company under Chapter 14A of the Listing Rules, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to independent Shareholders' approval at the extraordinary general meeting according to Rule 14A.17 of the Listing Rules. As no Shareholders will be required to abstain from voting for the Acquisition and AEON Co., which beneficially owns approximately 71.64% of the issued share capital of the Company as at the date of this announcement, has undertaken to vote in favour of the Acquisition, the Company has applied to the Stock Exchange pursuant to Rule 14A.43 of the Listing Rules for a waiver from the requirement under the Listing Rules for the Company to hold an extraordinary general meeting to seek Shareholders' approval in respect of the S&P Agreement and the transactions contemplated thereunder.

An independent board committee of the Company will be formed to advise the independent Shareholders in relation to the S&P Agreement and the respective transactions contemplated thereunder. An independent financial adviser will be appointed to advise the independent board committee of the Company and the independent Shareholders in respect of the terms of the S&P Agreement and the respective transactions contemplated thereunder.

A circular containing, among others, (a) further information on the S&P Agreement; (b) the letter of advice from the independent financial adviser to the independent board committee of the Company in relation to the S&P Agreement and the respective transactions contemplated thereunder; and (c) the letter of recommendation from the independent board committee of the Company to the independent Shareholders in relation to the S&P Agreement and the respective transactions contemplated thereunder, will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

DEFINITIONS

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

"Acquisition"	the proposed acquisition by the Company of the Equity Interests in accordance with the terms of the S&P Agreement
"AEON Co."	AEON Co., Ltd., a company incorporated in Japan with limited liability and the issued shares of which are listed on the Tokyo Stock Exchange, beneficially owns approximately 71.64% of the issued share capital of the Company
"AEON Shenzhen"	深圳永旺友誼商業有限公司(Shenzhen AEON Friendship Co., Ltd.# and formerly known as "深圳吉之島友誼百貨有限公司"), a Sino-foreign equity joint venture in the PRC which is held as to 65% by the Company, as to 25.01% by Friendship and as to 9.99% by Centralcon
"Board"	the board of Directors
"business day"	a day excluding Saturday, Sunday and other national holidays in the PRC
"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
"Completion"	completion of the S&P Agreement in accordance with its terms and conditions
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Consideration"	RMB94.5 million (approximately HK$101.1 million), being the consideration for the acquisition of the Equity Interests under the S&P Agreement
"Centralcon"	深圳中洲城市廣場有限公司(Shenzhen Centralcon City Plaza Company Limited#), a limited liability company incorporated in the PRC, which held 9.99% of the paid up registered capital in AEON Shenzhen as at the date of this announcement and is an Independent Third Party
"Director(s)"	the director(s) of the Company

"Equity Interests"	collectively, 25.01% of the paid up registered capital held by Friendship and 9.99% of the paid up registered capital held by Centralcon in AEON Shenzhen
"Friendship"	深圳市友誼貿易中心有限公司 (Shenzhen Friendship Trading Center Limited#), a limited liability company incorporated in the PRC, which held 25.01% of the paid up registered capital in AEON Shenzhen as at the date of this announcement
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Third Party"	person or company who/which is not connected with the respective directors, chief executive or substantial shareholders (as defined under the Listing Rules) of the Company and its subsidiaries or any of their respective associates
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"S&P Agreement"	the conditional agreement dated 18 January 2008 entered into among the Company as purchaser and Friendship and Centralcon as vendors
"Share(s)"	ordinary share(s) of HK$0.20 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendors"	Friendship and Centralcon collectively
"%"	per cent.

For English translation only

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.

For the purpose of illustration only, amounts denominated in RMB have been translated into HK$ at the prevailing rates for the respective periods or at the rate of RMB1.00 = HK$1.07 in this announcement. Such translation should not be construed as a representation that the amounts denominated in RMB 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, 23 January 2008