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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **AEON Stores (Hong Kong) Co., Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**CONNECTED TRANSACTION**

**Independent financial adviser to the Independent Board Committee and  
the Independent Shareholders**



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A letter from the board of directors of AEON Stores (Hong Kong) Co., Limited is set out on pages 4 to 9 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 10 of this circular. A letter of advice from Taifook Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 19 of this circular.

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## DEFINITIONS

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*In this circular, 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 owned approximately 71.64% of the issued share capital of the Company as at the Latest Practicable Date
“AEON Shenzhen”	深圳永旺友誼商業有限公司(Shenzhen AEON Friendship Co., Ltd. <sup>#</sup> 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 was held as to 65% by the Company, as to 25.01% by Friendship and as to 9.99% by Centralcon as at the Latest Practicable Date
“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 <sup>#</sup> ), a limited liability company incorporated in the PRC, which held 9.99% of the paid up registered capital in AEON Shenzhen as at the Latest Practicable Date and is an Independent Third Party
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“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 <sup>#</sup> ), a limited liability company incorporated in the PRC, which held 25.01% of the paid up registered capital in AEON Shenzhen as at the Latest Practicable Date
“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 Board Committee”	The independent committee of the Board, comprising Madam Lam Pei Peggy, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna, established for the purpose of advising the Independent Shareholders in relation to the S&P Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than those, if any who are required under the Listing Rules to abstain from voting in respect of the S&P Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	person(s) or company(ies) who/which is(are) not connected with the directors, chief executive or substantial shareholders (as defined under the Listing Rules) of the Company and its subsidiaries or any of their respective associates
“Latest Practicable Date”	1 February 2008, being the latest practicable date for ascertaining certain information for inclusion in this circular
“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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“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
“Taifook”	Taifook Capital Limited, a licensed corporation for Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the S&P Agreement and the transactions contemplated thereunder
“Vendors”	Friendship and Centralcon collectively
“%”	per cent.

# *For English translation only*

*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 circular. 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.*

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

LAM Man Tin (*Managing Director*)

FUKUMOTO Yutaka (*Deputy Managing Director*)

WONG Mun Yu

AGAWA Yutaka

*Registered Office:*

G - 4th Floor

Kornhill Plaza (South)

2 Kornhill Road

Hong Kong

*Non-Executive Directors:*

TANAKA Akihito (*Chairman*)

TOYOSHIMA Masaaki

ISHII Kazumasa

*Head Office and*

*Principal Place of Business:*

3rd Floor

Stanhope House

738 King's Road

Quarry Bay

Hong Kong

*Independent Non-Executive Directors:*

LAM PEI Peggy

SHAM Sui Leung, Daniel

CHENG Yin Ching, Anna

6 February 2008

*To the Shareholders*

Dear Sir or Madam,

## CONNECTED TRANSACTION

### INTRODUCTION

On 23 January 2008, the Company announced that the Company had entered into the S&P Agreement with the Vendors on 18 January 2008 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.

The Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the Independent Shareholders' approval at the extraordinary general meeting. The Company had applied to the Stock Exchange for a waiver from the requirement under the Listing Rules for the Company to hold an extraordinary general meeting to seek Independent Shareholders' approval in respect of the S&P Agreement and the transactions contemplated thereunder. The Stock Exchange has granted such a waiver to the Company.

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## LETTER FROM THE BOARD

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The purpose of this circular is to give you (a) further information on the S&P Agreement; (b) 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; and (c) the letter of advice from Taifook to the Independent Board Committee and Independent Shareholders of the Company in relation to the S&P Agreement and the respective transactions contemplated thereunder.

### **THE S&P AGREEMENT**

#### **Date:**

18 January 2008

#### **Parties:**

Friendship and Centralcon, as vendors

The Company, as purchaser

#### **Interests being acquired:**

Pursuant to the S&P Agreement, the Company has conditionally agreed to acquire 35% equity interest in AEON Shenzhen, of which 25.01% will be acquired from Friendship and 9.99% will be acquired from Centralcon.

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 after Completion.

The Consideration was arrived at after arm's length negotiation with reference to the business prospects of AEON Shenzhen, 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) made in cash by the Company and the Vendors in proportion to their respective shareholding in AEON Shenzhen in January 2008. The Group will finance the Consideration from its internal resources.

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## LETTER FROM THE BOARD

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### Conditions precedent to the S&P Agreement

Completion shall be conditional upon:

- (A) the Company having obtained the approval of the Independent 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 Latest Practicable Date. As at the Latest Practicable Date, AEON Shenzhen operated 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
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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)



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## LETTER FROM THE BOARD

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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) made in January 2008.

### 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 it 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 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 Latest Practicable Date, the Group operated (i) six general merchandise stores, three supermarkets, thirteen “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 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 stores commenced operations for a number of years.

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## LETTER FROM THE BOARD

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The Directors noted that the Consideration, which represented approximately 12.2 times of 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 price to book 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 such that 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.

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.

### **IMPLICATIONS UNDER THE LISTING RULES**

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 owned approximately 71.64% of the issued share capital of the Company as at the Latest Practicable Date, 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 Independent Shareholders' approval in respect of the S&P Agreement and the transactions contemplated thereunder. The Stock Exchange has granted such a waiver to the Company.

Taifook has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement and the transactions contemplated thereunder. Your attention is drawn to the letter of advice from Taifook set out in this circular.

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## LETTER FROM THE BOARD

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The Independent Board Committee of the Company, comprising three independent non-executive Directors, namely Madam Lam Pei Peggy, Mr. Sham Sui Leung, Daniel, and Ms. Cheng Yin Ching, Anna has been formed to advise the Independent Shareholders in relation to the S&P Agreement and the respective transactions contemplated thereunder. Your attention is drawn to its letter of recommendation set out in this circular.

### GENERAL

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**AEON Stores (Hong Kong) Co., Limited**  
**Lam Man Tin**  
*Managing Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation from the Independent Board Committee prepared for the purpose of the inclusion in this circular.*

  
**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)

6 February 2008

*To the Independent Shareholders*

Dear Sir or Madam,

### CONNECTED TRANSACTION

We refer to the circular of the Company dated 6 February 2008 (the “Circular”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the S&P Agreement and the transactions contemplated thereunder. Taifook has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out in their letter in the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the S&P Agreement and the transactions contemplated thereunder and taking into account the independent advice of Taifook, in particular the principal factors, reasons and recommendation as set out in their letter in the Circular, we consider that (i) the terms of the S&P Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned; and (ii) the entering into of the S&P Agreement is in the interests of the Group and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote for the resolution in relation to the transaction contemplated under the S&P Agreement as if a Shareholders’ meeting was required to be held.

Yours faithfully,

Independent Board Committee

**Lam Pei Peggy**

**Sham Sui Leung, Daniel**

**Cheng Yin Ching, Anna**

*Independent non-executive Directors*

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## LETTER FROM TAIFOOK

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*The following is the text of a letter of advice from Taifook to the Independent Board Committee and Independent Shareholders for the purpose of incorporation into this circular.*



25th Floor  
New World Tower  
16-18 Queen's Road Central  
Hong Kong

6 February 2008

*To the Independent Board Committee and Independent Shareholders of  
AEON Stores (Hong Kong) Co., Limited*

Dear Sirs,

### CONNECTED TRANSACTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the terms of the Acquisition, details of which are set out in the circular dated 6 February 2008 (the "Circular") issued by the Company to the Shareholders of which this letter forms part. Capitalised terms used in this letter shall have the same respective meanings as those defined in the Circular unless the context otherwise requires.

As referred to in the "Letter from the Board" of the Circular, Friendship, by virtue of it being a substantial shareholder of AEON Shenzhen, is a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction for the Company under the Listing Rules, and is subject to the 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 owned approximately 71.64% of the entire issued share capital of the Company as at the Latest Practicable Date, 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 Independent Shareholders' approval in respect of the S&P Agreement and the transactions contemplated thereunder. The Stock Exchange has granted such a waiver to the Company.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with our independent opinion and recommendations as to whether the terms of the S&P Agreement are fair and reasonable so far as the interest of the Independent Shareholders and the Group are concerned, and are in the interests of the Independent Shareholders and the Group as a whole.

The Independent Board Committee, the composition of which is set out in the "Letter from the Independent Board Committee" of the Circular, has also been established to advise the Independent Shareholders in respect of the terms of the Acquisition.

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## LETTER FROM TAIFOOK

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### BASES AND ASSUMPTIONS

In formulating our recommendation, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the Group's senior management and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Circular, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the Group's senior management. We have also assumed that the information, financial information, facts and any representations made to us or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular. We have been advised by the Directors and/or the Group's senior management that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Company as set out below:

- (i) the S&P Agreement;
- (ii) the annual report of the Company for the year ended 31 December 2006 (the "Annual Report");
- (iii) the interim report of the Company for the six months ended 30 June 2007 (the "Interim Report"); and
- (iv) the Circular.

In addition to the information provided by the Company, we have also reviewed:

- (i) the statistics and information published on the official website of National Bureau of Statistics of China (中華人民共和國國家統計局) on 3 January 2008; and
- (ii) the statistics and information published on the official website of Shenzhen Municipal Statistics Bureau (深圳市統計局) of the government of Shenzhen, the PRC on 3 January 2008.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the S&P Agreement, and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information, financial information and facts provided and representations made to us. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules (including the notes thereto) to formulate our opinion and recommendation. We have not, however, conducted an independent investigation into the business and affairs of the Group.

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## LETTER FROM TAIFOOK

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the S&P Agreement, we have considered the following principal factors and reasons:

#### (I) BACKGROUND

##### 1. Information on the Group

The Group is principally engaged in the operation of general merchandise stores in Hong Kong, Macau and the PRC. As at the Latest Practicable Date, the Group operated (i) six general merchandise stores, three supermarkets, thirteen “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. The revenue of the Group in the PRC and the total revenue of the Group for each of the two years ended 31 December 2006 are set out below:

	Year ended 31 December	
	2005	2006
	(HK\$ million)	(HK\$ million)
	(Audited)	(Audited)
The Group’s total revenue	3,919.7	4,287.0
The Group’s revenue in the PRC	1,149.9	1,383.7

For the year ended 31 December 2006, the Group’s revenue in the PRC increased by approximately 20% when compared with that for the year ended 31 December 2005. For each of the two years ended 31 December 2006, the aggregate revenue of the Group in the PRC accounted for approximately 29% and 32% of the Group’s total revenue respectively.

##### 2. Outlook of the retail industry in the PRC and Shenzhen of the PRC

Based on the statistics published on the official website of Shenzhen Municipal Statistics Bureau (深圳市統計局) on 3 January 2008, the total population in Shenzhen was approximately 16.9 million in 2006, increased by approximately 2.3% as compared with that in 2005. The total GDP in Shenzhen was approximately RMB581.4 billion in 2006, increased by approximately 16.6% as compared with that in 2005. The GDP per capita in Shenzhen reached RMB69,450 in 2006, representing an increase of approximately 13.4% over 2005. According to these published statistics, there is continuing growth in consumption power of Shenzhen residents.

According to the National Bureau of Statistics of China (中華人民共和國國家統計局) on 3 January 2008, the total retail sales of consumer goods in the PRC reached approximately RMB7,641 billion in 2006, increased by approximately 13.7% from RMB6,718 billion in 2005.

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## LETTER FROM TAIFOOK

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Based on the statistics published on the official website of Shenzhen Municipal Statistics Bureau (深圳市統計局), the total retail sales of consumer products in Shenzhen, the PRC was approximately RMB167.1 billion in 2006, which accounted for approximately 28.7% of the total GDP in Shenzhen, the PRC and represented an increase of approximately 16.2% as compared with approximately RMB143.8 billion in 2005. The total retail sales of consumer products in Shenzhen, the PRC was approximately RMB157.0 billion during the period from January to October in 2007, representing an increase of approximately 14.0% as compared to approximately RMB137.7 billion during the corresponding period in 2006.

In light of the above, we concur with the Directors' view that there is a promising outlook of the retail industry in Shenzhen, the PRC such that the Acquisition can offer good business opportunities to the Group.

### **3. Information on AEON Shenzhen**

As referred to in the "Letter from the Board" of the Circular, 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 Latest Practicable Date. As at the Latest Practicable Date, AEON Shenzhen operated five general merchandise stores in Shenzhen.

Based on the unaudited management accounts of AEON Shenzhen for the two years ended 31 December 2006 and the 11 months ended 30 November 2007, (i) AEON Shenzhen recorded revenue of approximately HK\$184.1 million, HK\$290.7 million and HK\$362.8 million for the years ended 31 December 2005 and 2006 and the 11 months ended 30 November 2007 respectively; and (ii) AEON Shenzhen recorded a loss after taxation of approximately HK\$12.5 million, HK\$9.8 million and HK\$1.1 million for the years ended 31 December 2005 and 2006 and the 11 months ended 30 November 2007 respectively. The Directors considered that the aforesaid historical loss of AEON Shenzhen was mainly due to the third and the fourth stores only commenced operation in September 2005 and April 2007 respectively. The fifth store was opened in December 2007 and the Directors expect that the sixth store will be opened in early 2009.

### **(II) REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE S&P AGREEMENT**

As referred to in the "Letter from the Board" of the Circular, 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 and the economy in the PRC region continues to flourish and drives the growth of the retail industry in the PRC. The Group believes that general merchandise stores of AEON Shenzhen will benefit from customer's robust demand for quality merchandise and services. 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.



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## LETTER FROM TAIFOOK

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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 based on the reasons as detailed in the paragraph headed “Information on AEON Shenzhen” under the section headed “Background” of this letter. In fact, the loss after taxation of AEON Shenzhen for the 11 months ended 30 November 2007 has been significantly reduced following four stores commenced operations for a number of years.

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 such that 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. The Directors expect that the financial performance of AEON Shenzhen would be further improved after Completion based on the reasons as detailed above.

Based on the aforesaid, we concur with the Directors’ view that the entering into of the S&P Agreement is in the interests of the Independent Shareholders and the Group as a whole.

### **(III) THE S&P AGREEMENT**

#### **1. Terms of the S&P Agreement**

Pursuant to the S&P Agreement, the Company has conditionally agreed to acquire from the Vendors the Equity Interests, which represent 35% of the entire registered capital of AEON Shenzhen, for an aggregate consideration of RMB94.5 million (equivalent to approximately HK\$101.1 million). The consideration will be paid in cash to the Vendors in proportion to their respective equity interests in AEON Shenzhen and be fully settled within eight business days after Completion.

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### 2. Basis of consideration

As advised by the Directors, the consideration was arrived at after arm's length negotiation with reference to, among other things, the business prospects of AEON Shenzhen and the unaudited net assets value of AEON Shenzhen as at 30 November 2007 as adjusted by the capital injection made in January 2008. Set out below is the adjusted unaudited net assets value of AEON Shenzhen based on the information provided by the Directors:

	<b>Amount</b> <i>(HK\$ million)</i>
Unaudited net assets value of AEON Shenzhen as at 30 November 2007	18.5
Add: Capital injection made in January 2008	5.1
Adjusted unaudited net assets value of AEON Shenzhen	23.6
<b>(A) 35% of the adjusted unaudited net assets value of AEON Shenzhen</b>	<b>8.3</b>
<b>(B) Consideration</b>	<b>101.1</b>
<b>Price to book ratio – (B) divided by (A)</b>	<b>12.2 times</b>

As shown above, the consideration for the acquisition of 35% of the registered capital of AEON Shenzhen, which is approximately HK\$101.1 million, represented approximately 12.2 times of 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 (the "AEON Shenzhen Ratio"), which is noted to be comparable to those of the Comparable Companies (as defined below).

For the purpose of our assessment of the fairness and reasonableness of the Consideration, to the best of our knowledge and based on publicly available information, we have identified five companies listed on the Stock Exchange which are mainly engaged in the department stores business in the PRC (the "Comparable Companies"), namely Parkson Retail Group Limited, Golden Eagle Retail Group Limited, Intime Department Store (Group) Company Limited, New World Department Store China Limited and

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Times Ltd.. The table below illustrates the price to book ratio of each of the Comparable Companies as at the Latest Practicable Date with their respective net book value extracted from their latest published annual reports or interim reports or quarterly results:

	<b>Market capitalisation based on the closing price per share as at the Latest Practicable Date</b> <i>(HK\$' million)</i>	<b>Latest published consolidated net assets value</b> <i>(HK\$' million)</i>	<b>Price to book ratio</b> <i>(times)</i>
Parkson Retail Group Limited (stock code: 3368)	40,398.4	2,849.1	14.2
Golden Eagle Retail Group Limited (stock code: 3308)	14,810.4	1,202.4	12.3
Intime Department Store (Group) Company Limited (stock code: 1833)	12,420.0	3,921.9	3.2
New World Department Store China Limited (stock code: 825)	16,187.0	857.2	18.9
Times Ltd. (stock code: 1832)	2,534.6	182.5	13.9
<b>Simple average of price to book ratio</b>			<b>12.5</b>

As shown above, all the Comparable Companies were traded at price to book ratios ranging between approximately 3.2 times and 18.9 times. The simple average of such price to book ratios of the Comparable Companies was approximately 12.5 times (the "Comparable Ratio").

We acknowledge that price earnings multiple is commonly used in assessing the valuation of companies. However, we consider that price earnings multiple is not applicable in assessing the Consideration given that AEON Shenzhen recorded a loss after taxation of approximately HK\$9.8 million and approximately HK\$1.1 million for the year ended 31 December 2006 and the 11 months ended 30 November 2007 respectively due to the reasons as detailed in the paragraph headed "Information on AEON Shenzhen" under the section headed "Background" of this letter.

Based on the above and, in particular, after taking into account the following, we concur with the Directors' view that the Consideration is on normal commercial terms and fair and reasonable so far as the Independent Shareholders and the Group are concerned:

- (i) the AEON Shenzhen Ratio falls within the range and below most (i.e. four out of five) of the price to book ratios of the Comparable Companies;

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- (ii) the AEON Shenzhen Ratio is below the Comparable Ratio;
- (iii) the financial results of AEON Shenzhen had actually improved during the past few years and the loss after taxation for the 11 months ended 30 November 2007 has been significantly reduced, based on the reasons as detailed in the paragraph headed “Information on AEON Shenzhen” under the section headed “Background” of this letter; and
- (iv) the Directors expect that the financial performance of AEON Shenzhen would be further improved after Completion based on the reasons as detailed in the Section headed “Reasons for and benefits of the entering into of the S&P Agreement” of this letter.

### **(IV) FINANCIAL EFFECTS UPON COMPLETION ON THE GROUP**

#### **Net assets value**

Since the Company intends to finance the Acquisition by the Group’s internal resources instead of issue of Shares, there will not be any material impact on the net assets value of the Group immediately following the Completion.

#### **Financial resources**

The aggregate Consideration of approximately HK\$101.1 million, which will be financed by the Group’s internal resources, represents approximately 6.1% of the Group’s aggregate bank and cash balances of approximately HK\$1,669.9 million as at 30 June 2007. As such, we concur with the Directors’ view that the Acquisition will not have any material adverse impact on the Group’s financial resources.

#### **Gearing**

As referred to in the Interim Report, the Group’s aggregate bank and cash balances amounted to approximately HK\$1,669.9 million as at 30 June 2007, whilst its bank borrowings amounted to approximately HK\$92.0 million as at 30 June 2007. Based on the aforesaid, the Group’s net cash position (being the bank and cash balances less bank borrowings) was approximately HK\$1,577.9 million as at 30 June 2007.

The Directors expect that there would not be a material adverse impact on the Group’s abovementioned net cash position as a result of the Completion.

### **RECOMMENDATION**

Having considered that:

- (i) the reasons for and benefits of the entering into of the S&P Agreement; and
- (ii) the terms of the S&P Agreement,

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we consider that the terms of the S&P Agreement are on normal commercial terms and are fair and reasonable so far as the Group and the Independent Shareholders are concerned and are in the interests of the Group and the Independent Shareholders as a whole. As such, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to approve Acquisition as if a Shareholders' meeting was required to be held.

Yours faithfully,

For and on behalf of

**Taifook Capital Limited**

**Derek C. O. Chan**

*Managing Director*

**Marcus Ho**

*Executive Director*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executive's interests

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company ("Model Code") were as follows:

#### (1) Long positions in the Shares

Name of Directors	Number of ordinary shares held as personal interest	Approximate percentage of interest in the issued share capital of the Company %
LAM Man Tin	20,000	0.008
Yutaka FUKUMOTO	70,000	0.027
WONG Mun Yu	18,000	0.007
Yutaka AGAWA	12,000	0.005
Akihito TANAKA	50,000	0.019
Kazumasa ISHII	40,000	0.015
LAM PEI Peggy	200,000	0.077

- (2) *Long positions in the shares of AEON Co., Ltd., the Company's ultimate holding company*

Name of Directors	Number of shares held as personal interests	Approximate percentage of interest %
Akihito TANAKA	13,900	0.0017
Masaaki TOYOSHIMA	9,300	0.0012
Kazumasa ISHII	9,000	0.0011

- (3) *Long positions in the shares of other associated corporations*

	Akihito TANAKA	
	Number of shares	Approximate percentage of interest %
AEON Fantasy Co., Ltd.	3,801	0.021
AEON Thana Sinsap (Thailand) Plc.	20,000	0.008
Aeonmall Co., Ltd.	4,000	0.003
AEON CO. (M) Bhd.	200,000	0.110
Ryukyu JUSCO Co., Ltd.	100	0.018

All the shares held are personal interests.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Substantial shareholders' interests***(a) Long positions in the Shares*

So far as is known to any Director or the chief executive of the Company, as at the Latest Practicable Date, Shareholders (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

<b>Name of substantial shareholders</b>	<b>Long Positions Number of ordinary shares</b>	<b>Approximate percentage of the issued share capital %</b>
AEON Co., Ltd.	186,276,000 ( <i>Note 1</i> )	71.64
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of Accounts managed by the Aberdeen Group	28,642,000 ( <i>Note 2</i> )	11.02

*Note 1:* These shares were held as to 177,500,000 Shares by AEON Co., Ltd., 7,000,000 Shares by AEON (U.S.A.), Inc., and 1,776,000 Shares by Aeon Credit Services (Asia) Company Limited ("ACS") as at the Latest Practicable Date.

AEON (U.S.A.), Inc. is a wholly-owned subsidiary of AEON Co., Ltd. and AEON Co. Ltd. was deemed to be interested in the 7,000,000 Shares owned by AEON (U.S.A.), Inc. as at the Latest Practicable Date.

ACS was owned by AEON Co., Ltd., AEON Credit Service Co., Ltd. and the Company as to 55,990,000 shares representing 13.37%, 217,514,000 shares representing 51.94%, and 3,784,000 shares representing 0.90% respectively of the issued share capital of ACS as at the Latest Practicable Date.

By virtue of its ownership of 45.28% and 71.64% of the issued share capital of AEON Credit Service Co., Ltd., and the Company respectively, AEON Co., Ltd., was deemed to be interested in the 1,776,000 Shares owned by ACS as at the Latest Practicable Date.

*Note 2:* These Shares were held by Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of Accounts managed by the Aberdeen Group in the capacity of an investment manager as at the Latest Practicable Date.



*(b) Other members of the Group*

So far as is known to any Director or the chief executive of the Company, as at the Latest Practicable Date, the following persons were, directly or indirectly, interested in 10% or more of the share capital carrying rights to vote at general meetings of the following members of the Group:

<b>Members of the Group</b>	<b>Name of substantial shareholders</b>	<b>Approximate percentage of shareholding</b>
Guangdong JUSCO Teem Stores Co., Ltd.	Guangdong Teemmall Department Stores Holdings Ltd.	35.00
Shenzhen AEON Friendship Co., Ltd.	深圳市友誼貿易中心有限公司 (Shenzhen Friendship Trading Centre Limited)	25.01

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors and the chief executive of the Company) who had interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such share capital.

**3. EXPERT**

The following are the name and qualification of the expert who has given its opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Taifook	A licensed corporation under the SFO to carry out Type 6 regulated activity (advising on corporate finance)

Taifook has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name or letter in the form and context in which they appear.

As at the Latest Practicable Date, Taifook did not have any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

**5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

**6. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, none of the Directors or Taifook had any interest, either direct or indirect, in any assets which had been, since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) As at the Latest Practicable Date, none of the Directors or Taifook was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (c) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the head office and the principal place of business in Hong Kong of the Company at 3rd Floor, Stanhope House, 738 King's Road, Quarry Bay, Hong Kong, during normal business hours from the date of this circular up to and including the date of 22 February 2008:

- (a) the S&P Agreement;
- (b) the letter from Independent Board Committee dated 6 February 2008 set out in this circular; and
- (c) the letter of advice dated 6 February 2008 from Taifook to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular.