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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)

**CONTINUING CONNECTED TRANSACTIONS:
THE AMENDMENT AGREEMENT AND THE CAP**

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



A letter from the board of directors of AEON Stores (Hong Kong) Co., Limited is set out on pages 6 to 13 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 14 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 15 to 26 of this circular.

A notice of the extraordinary general meeting of AEON Stores (Hong Kong) Co., Limited to be held at Victoria Room, World Trade Centre Club Hong Kong, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on 26 January 2007 at 9:30 a.m. is set out on pages 33 to 34 of this circular. Whether or not you are able to attend the extraordinary general meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the share registrar of the Company in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the extraordinary general meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting in person should you so wish.

3 January 2007

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DEFINITIONS

In this circular, the following expressions shall have the 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
“Announcement”	the announcement dated 12 December 2006 issued by the Company in relation to the Transaction and the Cap
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“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
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Direct Sales Area”	being (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
“Director(s)”	director(s) 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
“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
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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 which comprises Madam Lam Pei Peggy, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna, 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 resolution in respect of the Transaction and the Cap
“Kornhill Store”	the Company’s store at Kornhill Plaza, Quarry Bay, Hong Kong
“Latest Practicable Date”	27 December 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Multiple Category Stores”	<p>a retail store that has the characteristics set out below:</p> <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 sub-paragraphs (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; and(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 circular, 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
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Shareholder(s)”	registered holders of the Share(s) from time to time

DEFINITIONS

“Share(s)”	share(s) of par value HK\$0.20 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)
“Taifook”	Taifook Capital Limited, a licensed corporation under the SFO to carry out Type 6 regulated activity (advising on corporate finance) and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction and the Cap
“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

DEFINITIONS

“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

LETTER FROM THE BOARD



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)

Directors:

Mr. Toshiji Tokiwa* (*Chairman*)
Mr. Lam Man Tin (*Managing Director*)
Mr. Yutaka Fukumoto
Mr. Wong Mun Yu
Mr. Akihito Tanaka*
Mr. Tatsuichi Yamaguchi*
Mr. Naoyuki Miyashita*
Madam Lam Pei Peggy#
Mr. Sham Sui Leung, Daniel#
Ms. Cheng Yin Ching, Anna#

* *non-executive Directors*

independent non-executive Directors

Registered Office:

G-4th Floor
Kornhill Plaza (South)
2 Kornhill Road
Hong Kong

Head Office and Principal

Place of Business in Hong Kong:

3rd Floor
Stanhope House
738 King's Road
Quarry Bay
Hong Kong

3 January 2007

To the Shareholders,

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:
THE AMENDMENT AGREEMENT AND THE CAP**

INTRODUCTION

On 12 December 2006, the Board announced that the Company entered into the Amendment Agreement with the Adviser to amend the Technical Assistance Agreement and that, pursuant to Rule 14A.35(2) of the Listing Rules, the Company has set the Cap of HK\$47 million. 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

LETTER FROM THE BOARD

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

Details of the Transaction were set out in the Announcement. The purpose of this circular is to give you (i) further information regarding the Transaction and the Cap; (ii) the notice of the EGM; (iii) the letter of advice from Taifook to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction and the Cap; (iv) the letter of recommendation of the Independent Board Committee to the Independent Shareholders in respect of the terms of the Transaction and the Cap; and (v) other information as required under the Listing Rules.

THE TECHNICAL ASSISTANCE AGREEMENT AND THE CAP

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.

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

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

On 12 December 2006 the Company entered into the Amendment Agreement with the Adviser to amend the Technical Assistance Agreement and, pursuant to Rule 14A.35(2) of the Listing Rules, the Company has set the Cap of HK\$47 million as the maximum aggregate annual value of the fees and expenses 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 three years ending 31 December 2009, the historical growth in retail sales of the department stores and the supermarket chain stores of the Group, and the expected opening of new stores by the Group.

LETTER FROM THE BOARD

THE AMENDMENT AGREEMENT

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

Parties

The Company and the Adviser.

Terms

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 the 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.

LETTER FROM THE BOARD

- (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 six 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.

LETTER FROM THE BOARD

- (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 square feet 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%.

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.

LETTER FROM THE BOARD

(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.

INFORMATION ABOUT THE GROUP AND THE ADVISER

The Group is principally engaged in the operation of general merchandise stores in Hong Kong, Macau and PRC. As at the Latest Practicable Date, the Group operated (i) seven general merchandise stores, two supermarkets and eleven “HK\$10 Plaza” in Hong Kong; and (ii) nine general merchandise stores in Guangdong Province, 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 (as defined under the Listing Rules) and as at the Latest Practicable Date, the Adviser was interested in approximately 71.64% of the issued share capital of the Company.

REASONS FOR AND BENEFITS OF THE TRANSACTION AND THE CAP

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.

LETTER FROM THE BOARD

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) 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 and are in the interests of the Independent Shareholders and the Group as a whole.

LISTING RULES REQUIREMENTS

The Adviser is the controlling Shareholder (as defined under the Listing Rules) and therefore is a connected person of the Company under the Listing Rules. Thus, the Transaction constitutes a non-exempt continuing connected transaction for 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 by poll 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 resolution 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.

EGM

A notice of the EGM to be held at Victoria Room, World Trade Centre Club Hong Kong, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong, on 26 January 2007 at 9:30 a.m. is set out on pages 33 to 34 of this circular. At the EGM, an ordinary resolution will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the Transaction and the Cap. The ordinary resolution to be proposed at the EGM will be determined by way of poll by the Independent Shareholders.

A form of proxy for use in connection with the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the share registrar of the Company in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) should you wish to do so.

An announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letter of advice from Taifook to the Independent Board Committee and the Independent Shareholders in respect of the Transaction and the Cap set out on pages 15 to 26 of this circular, and the letter of recommendation from the Independent Board Committee as set out on page 14 of this circular.

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

The Independent Board Committee, having taken into account the advice of Taifook and the principal factors and reasons considered by Taifook, is 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. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the Transaction and the Cap at the EGM.

GENERAL

Your attention is also drawn to the additional information set out in the appendix to this circular and the notice of the EGM.

On behalf of the Board
AEON Stores (Hong Kong) Co., Limited
Lam Man Tin
Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

3 January 2007

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:
THE AMENDMENT AGREEMENT AND THE CAP**

We refer to the circular (the “Circular”) dated 3 January 2007 issued by AEON Stores (Hong Kong) Co., Limited of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires. We have been appointed by the Board as members of the Independent Board Committee to advise you regarding the fairness and reasonableness and the terms of the Transaction and the Cap. Taifook has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Your attention is drawn to the “Letter from the Board”, the advice of Taifook to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transaction and the Cap as set out in the “Letter from Taifook” as well as other additional information set out in the appendix to the Circular.

Having taken into account the advice of Taifook, we consider 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. Accordingly, we would advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Transaction and the Cap at the EGM.

Yours faithfully,

Independent Board Committee

Lam Pei Peggy

Sham Sui Leung, Daniel

Cheng Yin Ching, Anna

Independent non-executive Directors

LETTER FROM TAIFOOK

The following is the text of a letter of advice received from Taifook prepared for the purpose of inclusion in this circular in respect of the Transaction and the Cap.



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

3 January 2007

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS: THE AMENDMENT AGREEMENT AND THE CAP

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the entering into of the Amendment Agreement between the Company and the Adviser, details of which are set out in the "Letter from the Board" (the "Letter") of the circular (the "Circular") dated 3 January 2007 issued by the Company, of which this letter forms part. 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, the Adviser was interested in approximately 71.64% of the issued share capital of the Company as at the Latest Practicable Date and is the controlling Shareholder (as defined under the Listing Rules). Given that the Adviser is a connected person of the Company, the Transaction constitutes the non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules, which are subject to the annual review, reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with an independent opinion and recommendations as to whether (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 Independent Board Committee, the composition of which has been set out in the "Letter from the Independent Board Committee" of the Circular, has been established to advise the Independent Shareholders in respect of the terms of the Transaction and the Cap and advise the Independent Shareholders how to vote on the resolution approving the Transaction and the Cap at the EGM, after taking into account our opinion and recommendations.

LETTER FROM TAIFOOK

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 Technical Assistance Agreement;
- (ii) the Amendment Agreement;
- (iii) the annual report of the Company for the year ended 31 December 2005 (the "Annual Report");
- (iv) the interim report of the Company for the six months ended 30 June 2006 (the "Interim Report"); and
- (v) the Circular.

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

- (i) the statistics in relation to the retail sales in Hong Kong provided by the Census and Statistics Department, the Government of Hong Kong; and
- (ii) the statistics in relation to the sales of department stores and supermarkets in the PRC provided by the National Bureau of Statistics, the Government of the PRC.

We have also discussed with the Directors with respect to the terms of, and reasons for the entering into of, the Transaction and the Cap, 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 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 recommendations. We have not, however, conducted an independent investigation into the business and affairs of the Group.

LETTER FROM TAIFOOK

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the terms of the Transaction and the Cap, 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) seven general merchandise stores, two supermarkets and eleven “HK\$10 Plaza” in Hong Kong; and (ii) nine general merchandise stores in the Guangdong Province, the PRC.

As stated in the Annual Report, the Group’s audited consolidated turnover for the year ended 31 December 2005 amounted to approximately HK\$5,503.4 million, representing an increase of approximately 15.2% as compared with approximately HK\$4,777.2 million, being the Group’s annualised turnover for the year ended 31 December 2004 (based on the Group’s audited consolidated turnover for the 10 months ended 31 December 2004 of approximately HK\$3,981.0 million). As stated in the Interim Report, the Group’s unaudited consolidated turnover for the six months ended 30 June 2006 amounted to approximately HK\$2,831.3 million, representing an increase of approximately 8.6% as compared with the Group’s unaudited consolidated turnover for the six months ended 30 June 2005 of approximately HK\$2,605.9 million. The Directors consider that the increase in the Group’s turnover was mainly attributable to the recovery of the retail markets in Hong Kong, the substantial growth in the retail markets in the PRC and the opening of new stores by the Group.

As extracted from the Interim Report, the Group’s unaudited consolidated turnover derived from its PRC operations for the six months ended 30 June 2006 amounted to approximately HK\$927.8 million, representing an increase of approximately 18.4% as compared with the Group’s unaudited consolidated turnover derived from its PRC operations for the six months ended 30 June 2005 of approximately HK\$783.8 million. The Group’s turnover derived from its PRC operations is in an increasing trend and accounted for approximately 30.3% and 32.8% of the Group’s audited consolidated turnover for the year ended 31 December 2005 and unaudited consolidated turnover for the six months ended 30 June 2006 respectively.

The Directors consider that the continued growth of the PRC economy will benefit the Group’s existing stores and new stores to be opened in the PRC, and the PRC market will be a major growth driver for the Group’s business in the future.

2. Information on the Adviser

As referred to in the “Letter from the Board” of the Circular, the Adviser is a public limited company incorporated in Japan with its shares 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 operations, the development of shopping centres development as well as services and other operations in Japan and other Asian countries. As at the Latest Practicable Date, the Adviser was interested in approximately 71.64% of the issued share capital of the Company.

LETTER FROM TAIFOOK

3. Major terms of the Technical Assistance Agreement

The Technical Assistance Agreement was entered into between the Company and Adviser on 31 December 1993. Pursuant to the Technical Assistance Agreement, the Company and its Affiliates have been granted by the Adviser an exclusive right to use a number of its trade marks and a non-exclusive right to use the technical know-how owned by the Adviser and the System to operate general merchandise stores from time to time in Hong Kong, Macau and the Guangdong Province of the PRC.

Under the Technical Assistance Agreement, the royalty fee payable is the aggregate of (i) 2% of the Revenue Total of Kornhill Store in that financial year; and (ii) a fixed charge at the rate of HK\$14 per square feet of the floor area of each of the stores (other than Kornhill Store) operated by the Company and/or its Affiliates, in each case pro rated to the number of days on which the store has commenced business.

The Technical Assistance Agreement shall remain in force up to and including 28 February 1998 unless terminated earlier in accordance with the Technical Assistance Agreement. If the Technical Assistance Agreement shall not have been terminated by 28 February 1998, it shall be renewed on 1 March 1998 automatically for successive periods of one year indefinitely unless and until either party gives not less than six months advance notice to the other of its intention not to renew or unless and until it is terminated in accordance with the Technical Assistance Agreement. As such, the Technical Assistance Agreement has continued in force to date.

4. Retail industry in Hong Kong and the PRC

Based on the statistics provided by the Census and Statistics Department, the Government of Hong Kong, the total retail sales in Hong Kong increased from approximately HK\$176,859 million for the year ended 31 December 2002 to approximately HK\$204,620 million for the year ended 31 December 2005, representing a compound average growth rate (the "CAGR") of approximately 5.0% per annum.

Based on the statistics provided by the National Bureau of Statistics, the Government of the PRC, (i) the total sales of chain department stores above designated size (being chain department stores with annual turnover of over RMB5 million and more than 60 employees) in the PRC increased from approximately RMB48,468 million for the year ended 31 December 2002 to approximately RMB74,470 million for the year ended 31 December 2004, representing a CAGR of approximately 24.0% per annum; and (ii) the total sales of chain supermarkets above designated size (being chain supermarkets with annual turnover of over RMB5 million and more than 60 employees) in the PRC increased from approximately RMB131,819 million for the year ended 31 December 2002 to approximately RMB240,990 million for the year ended 31 December 2004, representing a CAGR of approximately 35.2% per annum.

With (i) the robust growth in the PRC's retail sales as compared with that in Hong Kong above; and (ii) the increase in the Group's unaudited consolidated turnover derived from its PRC operations for the six months ended 30 June 2006 of approximately 18.4% as compared with that for the six months ended 30 June 2005, the Directors expect that the Group's sales in the PRC will keep increasing in the coming years.

LETTER FROM TAIFOOK

II. THE TECHNICAL ASSISTANCE AGREEMENT VS. THE AMENDMENT AGREEMENT

1. Major terms of the Amendment Agreement

Pursuant to the Amendment Agreement, for the three years ending 31 December 2009, the Company and its Affiliates will be granted the right by the Adviser to use the Trade Marks (ÆON, 永旺 and JUSCO) in the following manner:

Types	Hong Kong and Macau	The PRC
Ownership and/or operation of retail business in the style of Multiple Category Stores and/or Special Supermarket Stores	Exclusive right to use the Trade Marks	Non-exclusive right to use the Trade Marks
Provision of retail services, operation of Shopping Centres and catering services, food court with seating and restaurants	Non-exclusive right to use the Trade Marks	Non-exclusive right to use the Trade Marks

The Group shall pay a royalty fee to the Adviser for each financial year in the amount of 0.4% (the “New Royalty Rate”) of the audited consolidated Total of Revenue (the “New Formula”) of the Company and its Affiliates for the relevant financial year. The New Formula will be adopted retrospectively with effect from 1 January 2003.

The Amendment Agreement shall continue to be of effect for a further three-year period (and for each successive three-year period) subject to prior to the expiry of each such three-year period the parties to the Amendment Agreement so agree and compliance with the Listing Rules.

2. Variations between the major terms of the Amendment Agreement and the Technical Assistance Agreement

For comparison purposes, the variations between the major terms of the Amendment Agreement and the Technical Assistance Agreement are set out below:

Royalty fee

The Technical Assistance Agreement

The aggregate of (i) 2% of the Revenue Total of Kornhill Store; and (ii) a fixed charge at the rate of HK\$14 per square feet of the floor area of each of the stores (other than Kornhill Store) operated by the Company and/or its Affiliates.

The Amendment Agreement

0.4% of the audited consolidated Total of Revenue of the Company and its Affiliates.

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Trade marks

The Technical Assistance Agreement

All trade marks for goods and services, designs and insignia owned 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.

The Amendment Agreement

Trade Marks (ÆON, 永旺 and JUSCO).

Rights and territories

	The Technical Assistance Agreement	The Amendment Agreement
Multiple Category Stores		
(i) Hong Kong and Macau	Exclusive right to use the trade marks	Exclusive right to use the Trade Marks <i>(Note 1)</i>
(ii) Guangdong Province, the PRC	Exclusive right to use the trade marks	Non-exclusive right to use the Trade Marks
(iii) Regions of the PRC outside Guangdong Province	Not allowed to use the trade marks	Non-exclusive right to use the Trade Marks
Special Supermarket Stores, Retail Services, Shopping Centres and catering services		
(i) Hong Kong and Macau	Not applicable <i>(Note 2)</i>	Exclusive right to use the Trade Marks for Special Supermarket Stores <i>(Note 1)</i>
		Non-exclusive right to use the Trade Marks for retail services, Shopping Centres and catering services, food court with seating and restaurants
(ii) Guangdong Province, the PRC	Not applicable <i>(Note 2)</i>	Non-exclusive right to use the Trade Marks
(iii) Regions of the PRC outside Guangdong Province	Not allowed to use the trade marks	Non-exclusive right to use the Trade Marks

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Notes:

1. Pursuant to the Amendment 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 the Multiple Category Stores and/or Special Supermarket Stores in Hong Kong or Macau.
2. The Technical Assistance Agreement does not specifically state the use of trade marks for Special Supermarket Stores, retail services, Shopping Centres and catering services, food court with seating and restaurants.

III. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE AMENDMENT AGREEMENT

The Directors have noted that well-known brand names and trade marks of retail chain stores are of immense importance to retail chain operators and 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 consider that it is more common for companies in the retail industry to charge royalty fee based on sales amount instead of floor area which would be more favourable to the Group, in particular in relation to its business in 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 the Guangdong Province.

1. Savings in royalty fees

We noted that the royalty fee to be paid by the Group to the Adviser under the Amendment Agreement will be based on the New Formula, instead of being mainly based on the total floor area of the Group's stores.

Set out below are (i) the amounts of the royalty fees incurred by the Group for each of the three years ended 31 December 2005 and six months ended 30 June 2006 pursuant to the Technical Assistance Agreement; and (ii) the amounts of the royalty fees which would have been incurred by the Group on the basis that the New Formula has been adopted for each of the corresponding years/period under the Amendment Agreement:

	Year ended 31 December			Six months
	2003	2004	2005	ended
	(HK\$ million)	(HK\$ million)	(HK\$ million)	2006
				(HK\$ million)
Amount of royalty fees incurred	31.7	34.0	41.0	21.7
Amount of royalty fees which would have been incurred if the New Formula is adopted	18.4	20.4	22.9	11.8
Estimated savings	13.3	13.6	18.1	9.9

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Based on the above, the Directors expect that there will be savings in royalty payable to the Adviser in the future after the New Formula is adopted. Since the New Formula will be adopted retrospectively with effect from 1 January 2003 if the Transaction and the Cap are approved by the Independent Shareholders at the EGM, the aggregate savings in royalty fees estimated by the Directors for the three years ended 31 December 2005 and the six months ended 30 June 2006 would be approximately HK\$54.9 million on the basis that the New Formula is adopted. The savings in royalty fees would be written back in the Group's consolidated financial statement for the year ending 31 December 2007. Accordingly, we concur with the Directors' view that the entering into of the Transaction is in the interests of the Independent Shareholders and the Group as a whole.

For the purpose of our assessment of the fairness and reasonableness of the New Royalty Rate, to the best of our knowledge and based on publicly available information, we have identified five other companies listed on the Stock Exchange which are mainly engaged in retail sales and related business in Hong Kong and/or the PRC and have entered into licence arrangement(s) in relation to the use of trade marks and have disclosed the relevant rates of royalty in their annual report, circular or prospectus (the "Comparable Companies"). The table below illustrates the royalty rates payable by the Comparable Companies based on the information as extracted from their latest annual report, circular or prospectus which have disclosed the relevant rates of royalty:

Listed issuers	Basis of royalty fee
EganaGoldpfeil (Holdings) Limited (stock code: 48)	5% of sales (<i>Note 1</i>)
Hang Ten Group Holdings Limited (stock code: 448)	2.5% of net sales to customers (<i>Note 2</i>)
Tse Sui Luen Jewellery (International) Limited (stock code: 417)	1% of sales (<i>Note 3</i>)
Water Oasis Group Limited (stock code: 1161)	2% of gross receipt of sales (<i>Note 4</i>)
Wumart Stores, Inc. (stock code: 8277)	Nil (<i>Note 5</i>)

Notes:

1. As extracted from the circular dated 24 March 2005 issued by EganaGoldpfeil (Holdings) Limited.
2. As extracted from the annual report of Hang Ten Group Holdings Limited for the financial year ended 31 March 2006.
3. As extracted from the circular dated 6 November 2003 issued by Tse Sui Luen Jewellery (International) Limited. The use of trademarks was for the three years ended 28 February 2006.
4. As extracted from the prospectus dated 27 February 2002 issued by Water Oasis Group Limited.
5. As extracted from the prospectus dated 11 November 2003 issued by Wumart Stores, Inc. The use of trademark and logos is for a period of 10 years from 29 October 2003.

As shown above, the royalty rates of the licensing arrangements of all the Comparable Companies except for Wumart Stores, Inc. are higher than the New Royalty Rate. Besides, it is not uncommon for companies engaged in retail related business to pay royalty fees based on sales amount. As such, we consider that the entering into of the Transaction is on normal commercial terms and in the ordinary and usual course of business of the Group, and the New Royalty Rate is fair and reasonable.

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2. Non-exclusive rights to use the Trade Marks in the PRC

As shown under the sub-section headed “Variations between the major terms of the Amendment Agreement and the Technical Assistance Agreement” under section II of this letter, notwithstanding that the exclusive rights of the Company and its Affiliates to use the Trade Marks to operate Multiple Category Stores in the Guangdong Province of the PRC will become non-exclusive, the Company and its Affiliates have been granted non-exclusive rights to use the Trade Marks to operate the Business, provide retail services and operate Shopping Centres and catering services in the PRC, including all regions outside the Guangdong Province of the PRC. As advised by the Directors, the Group may face possible competition from the Adviser in the Guangdong Province of the PRC, but the Group has the competitive advantages of having established business relationships and more than 10 years’ retail business experience in the Guangdong Province of the PRC.

Besides, the Company and its Affiliates will be granted by the Adviser pursuant to the Amendment Agreement the non-exclusive rights to operate Special Supermarket Stores, retail services, Shopping Centres and catering services in the PRC. These types of businesses were not specifically covered by the Technical Assistance Agreement. The Directors are of the view that it can provide flexibility for the Group’s future business expansion.

The Directors consider that the entering into of the Amendment Agreement would facilitate the Group’s entry into the retail market in other municipal cities and/or provinces in the PRC and/or increase the scope of business to be operated by the Group in the PRC. As shown under the sub-section headed “Retail industry in Hong Kong and the PRC” under section I of this letter, there was substantial growth in the sales of chain department stores and supermarkets in the PRC during the past few years, and therefore the Directors are of the view that the entering into of the Amendment Agreement would provide more opportunities for the long-term business growth of the Group.

The Independent Shareholders should note that the Technical Assistance Agreement shall be renewed on each 1 March of the year automatically and indefinitely. In the event the Amendment Agreement is not entered into between the Company and the Adviser, either party can give not less than six months advance notice to the other of its intention not to renew it. After termination of the Technical Assistance Agreement, the Group will not be authorised to use the Trade Marks for its operations, which would in turn have a material adverse impact on the Group’s business and performance.

In view of the above and, in particular, taking into account:

- (i) the savings in royalty fees payable by the Group to the Adviser as illustrated above;
- (ii) the Group is granted the non-exclusive rights to use the Trade Marks to enter into the retail sector in all municipal cities and/or provinces of the PRC; and
- (iii) the termination clause in the Technical Assistance Agreement,

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we concur with the view of the Directors 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 are fair and reasonable so far as the interests of the Independent Shareholders and the Group are concerned.

IV. OTHER MATTERS

We would like to draw the attention of the Independent Shareholders to the following matters in connection with the Transaction:

1. Royalty fees paid by the Company's non wholly-owned subsidiaries in the PRC to the Company

As advised by the Directors, the Company is entitled to receive royalty fees from its non wholly-owned subsidiaries in the PRC which is equal to approximately 0.24% (after deduction of relevant PRC tax from the gross royalty fee of 0.3%) of the sales of these subsidiaries. The aforesaid royalty rate was agreed with the minority shareholders of the Company's non wholly-owned subsidiaries in the PRC after arm's length negotiations. As advised by the Directors, the differences (the "Differences") between the royalty fees payable to the Adviser based on the New Formula and the royalty fees receivable from the Company's non wholly-owned subsidiaries in the PRC for the three years ended 31 December 2005 and the six months ended 30 June 2006 are approximately HK\$1.7 million, HK\$2.1 million, HK\$2.7 million and HK\$1.5 million respectively. Out of the Differences, the minority shareholders of the Company's non wholly-owned subsidiaries in the PRC are only entitled to approximately HK\$0.6 million, HK\$0.7 million, HK\$0.9 million and HK\$0.5 million for the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively.

Taking into account the factors which include:

- (i) the New Royalty Rate payable to the Adviser is a package deal for the exclusive rights to operate the Business in Hong Kong and Macau, the non-exclusive rights to operate the Business in the PRC and other businesses in Hong Kong, Macau and the PRC;
- (ii) the minority shareholders of the non wholly-owned subsidiaries can contribute their local expertise for the Group's businesses in the PRC; and
- (iii) the Differences to which the minority shareholders of the Company's non wholly-owned subsidiaries in the PRC are entitled only amount to approximately HK\$0.6 million, HK\$0.7 million, HK\$0.9 million and HK\$0.5 million for the three years ended 31 December 2005 and the six months ended 30 June 2006,

we concur with the Directors that the Differences are fair and reasonable to the Independent Shareholders.

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2. Trade Marks under the Amendment Agreement

Under the Amendment Agreement, the Company will be granted the rights to use the Trade Marks (being the trade marks of 永旺, 永旺 and 永旺 only), but not all the trade marks of the Adviser as stipulated under the Technical Assistance Agreement. As advised by the Directors, all such excluded trade marks owned by the Adviser are not related to the existing business operations of the Group in Hong Kong, Macau and the PRC. As such, the Directors consider that the reduction in the number of trade marks to be licensed by the Adviser under the Amendment Agreement would not cause any material adverse impact on the Group's operations and business performance.

V. THE CAP

As advised by the Directors, the Cap for each of the three years ending 31 December 2009 would be HK\$47 million. In arriving at the Cap, the Directors have taken into account the following factors:

- (i) the increases in the turnover of the Group for the year ended 31 December 2005 of approximately 15.2% and the six months ended 30 June 2006 of approximately 8.6%;
- (ii) the expected business growth of the Group in Hong Kong and the PRC for the three years ending 31 December 2009 based on, among other things, the robust growth in the PRC's retail sales market as illustrated in the sub-section headed "Retail industry in Hong Kong and the PRC" under section I of this letter;
- (iii) the historical growth in retail sales of the department and supermarket chain stores of the Group, in particular, the increase in the Group's unaudited consolidated turnover derived from the PRC operations for the six months ended 30 June 2006 of approximately 18.4%;
- (iv) the Cap for the year ending 31 December 2009 only represents a CAGR of approximately 20% per annum when compared with the above estimated amount of royalty fee of approximately HK\$22.9 million for the year ended 31 December 2005 if the New Formula is adopted; and
- (v) the expected opening of new stores by the Group.

We noted that the Cap of HK\$47 million (i) 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; and (ii) is less than 2.5% of the threshold as stated in Rule 14A.34 of the Listing Rules. We consider that the Cap would provide greater flexibility to the Group to cater for its business growth. Based on the above, we concur with the Directors' view that the Cap is fair and reasonable.

LETTER FROM TAIFOOK

RECOMMENDATION

Having considered:

- (i) the terms of, reasons for and benefits of entering into the Transaction; and
- (ii) the bases and assumptions adopted in arriving at the Cap,

we consider that 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, the terms of the Transaction are on normal commercial terms, and 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. As such, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Transaction and the Cap at the EGM.

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 Director	Number of Shares	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
Akihito TANAKA	50,000	0.019
Tatsuichi YAMAGUCHI	22,000	0.008
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			Approximate percentage of interest %
	Personal interests	Family interests	Total	
Toshiji TOKIWA	17,700	–	17,700	0.0024
Akihito TANAKA	13,900	–	13,900	0.0019
Tatsuichi YAMAGUCHI	24,000	–	24,000	0.0033

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

	Mr. Toshiji TOKIWA		Mr. Akihito TANAKA	
	Number of shares	Approximate percentage of interest %	Number of shares	Approximate percentage of interest %
ACS Credit Management Co., Ltd.	10	0.083	–	–
AEON Credit Service (M) Sdn. Bhd.	20,000	0.167	–	–
AEON Fantasy Co., Ltd.	–	–	3,194	0.021
AEON Thana Sinsap (Thailand) Plc.	500,000	0.200	20,000	0.008
Aeonmall Co., Ltd.	–	–	2,000	0.003
AEON CO. (M) BHD	–	–	300,000	0.170
Maxvalu Tokai Co., Ltd.	7,500	0.043	–	–
Ryukyu JUSCO Co., Ltd.	–	–	100	0.018
Zwei Co., Ltd.	1,000	0.026	–	–

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:

Name of substantial shareholders	Long Positions Number of Shares	Approximate percentage of the issued share capital %
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	23,410,000 (<i>Note 2</i>)	9.00
Commonwealth Bank of Australia	13,384,000 (<i>Note 3</i>)	5.15

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 45.277% 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.

Note 3: These Shares were held as to 12,228,000 Shares by First State Investments (Hong Kong) Limited ("FSIHK") and 3,475,000 Shares by First State Investment Management (UK) Limited ("FSIUK") of which Shares 2,319,000 Shares are jointly held by FSIHK and FSIUK, in their capacity of investment managers as at the Latest Practicable Date. Both FSIHK and FSIUK are indirect wholly owned subsidiaries of Commonwealth Bank of Australia.

(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:

Members of the Group	Name of substantial shareholders	Approximate percentage of shareholding
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 Co., Ltd.)	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. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

4. PROCEDURE TO DEMAND A POLL

Pursuant to Article 65 of the articles of association of the Company, at the EGM, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless (before or on the declaration of the result of the show of hands or the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that rights.

5. QUALIFICATION OF EXPERT

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

Name	Qualification
Taifook Capital Limited	A licensed corporation under the SFO to carry out Type 6 regulated activity (advising on corporate finance)

6. CONSENT FROM TAIFOOK

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.

7. 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 2005, being the date to which the latest published audited financial statements of the Group were made up.

8. 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).

9. 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 2005, 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 and the accompanying form of proxy shall prevail over their respective Chinese text for the purpose of interpretation.

10. 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 the EGM:

- (a) the Technical Assistance Agreement;
- (b) the Amendment Agreement;
- (c) the letter of advice dated 3 January 2007 from Taifook to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 26 of this circular; and
- (d) the written consent from Taifook referred to in paragraph headed "Consent from Taifook" of this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN (the “Notice”) that the extraordinary general meeting (the “Meeting”) of AEON Stores (Hong Kong) Co., Limited (the “Company”) will be held at Victoria Room, World Trade Centre Club Hong Kong, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on 26 January 2007 at 9:30 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (i) the amendment agreement dated 12 December 2006 (the “Amendment Agreement”) entered into between the Company and AEON Co., Ltd. (the “Adviser”), a copy of which is tabled at the Meeting and marked “A” and initialled by the chairman of the Meeting for identification purpose, pursuant to which the parties have amended the terms of the Technical Assistant Agreement between the parties dated 31 December 1993 for 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 certain trademarks and systems owned by the Adviser (the “Continuing Connected Transactions”), be and is hereby approved, confirmed and ratified and the transactions contemplated therein be and are hereby approved;
- (ii) the cap amount of HK\$47 million in relation to the Continuing Connected Transactions for each of the three financial years ending 31 December 2009 be and is hereby approved; and
- (iii) any one director of the Company, or any two directors of the Company if affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents and agreements and to do all such acts or things deemed to be incidental to, ancillary to or in connection with the matters contemplated under the Amendment Agreement.”

By Order of the Board
Heng Kwoo Seng
Company Secretary

Hong Kong, 3 January 2007

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:

G-4th Floor
Kornhill Plaza (South)
2 Kornhill Road
Hong Kong

Head Office and Principal

Place of Business in Hong Kong:
3rd Floor
Stanhope House
738 King's Road
Quarry Bay
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his/her/its stead. In the case of a recognised clearing house, it may authorise such other person(s) as it thinks fit to act as its representative(s) at the Meeting and vote in its stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's share registrar in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to have been revoked.
5. Where there are joint holders of any share of the Company, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders are present at the Meeting personally or by proxy, then the holder whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.