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AEON STORES (HONG KONG) CO., LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

**CONTINUING CONNECTED TRANSACTIONS
OUTSOURCING ARRANGEMENT**

The Board announces that on 21 July 2008, PRC AEON Stores (subsidiaries of the Company), Beijing AEON and Qingdao AEON as one party and AIS as the other party entered into the Outsourcing Agreement in respect of the Outsourcing Arrangement.

As of the date of this announcement, AIS is owned as to 50% by each of AEON Credit Japan and AEON Credit HK which in turn are owned as to 45.6% and 66.22% by AEON Co, a controlling shareholder of the Company, respectively. Accordingly, the transactions contemplated under the Outsourcing Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Outsourcing Arrangement exceed 0.1% but are below 2.5%, the transactions under the Outsourcing Agreement are subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules and exempt from the requirements of independent shareholders' approval under Rules 14A.45 to 14A.47 of the Listing Rules.

THE OUTSOURCING AGREEMENT

Date: 21 July 2008

Parties: PRC AEON Stores, Beijing AEON and Qingdao AEON as one party
AIS as the other party

Subject: Pursuant to the Outsourcing Agreement, each of the PRC AEON Stores has contracted AIS to provide the Services to each of the PRC AEON Stores, details of the transactions are set out in the paragraph headed "Outsourcing Arrangement" below.

Term: The Outsourcing Agreement has a fixed term of three (3) years commencing on 21 July 2008 and ending on 20 July 2011, subject to early termination as governed by the terms of the Outsourcing Agreement.

Consideration: Each of the PRC AEON Stores shall pay AIS the Service Fee on a monthly basis. Such Service fee shall be deducted from the repayment sum collected by AIS on behalf of each of the PRC AEON Stores from the Members to settle the outstanding debt balance of their AEON Card accounts.

Outsourcing Arrangement

On 21 July 2008, each of the PRC AEON Stores, Beijing AEON, Qingdao AEON and AIS entered into the Outsourcing Agreement for a fixed term of three (3) years commencing on 21 July 2008 and ending on 20 July 2011. Beijing AEON and Qingdao AEON are subsidiaries of AEON Co and are not the subsidiaries of the Company. Although Beijing AEON and Qingdao AEON are connected persons of the Company and they are parties to the Outsourcing Agreement, there is no transaction between Beijing AEON/Qingdao AEON and the Company and its subsidiaries under the Outsourcing Agreement. Moreover, each of the PRC AEON Stores independently entered into the Outsourcing Agreement with AIS and there is no business relationship among each of the PRC AEON Stores under the Outsourcing Agreement.

In accordance with the terms of the Outsourcing Agreement, each of the PRC AEON Stores has appointed AIS as their respective contractor to provide the Services to each of the PRC AEON Stores including but not limited to the handling of AEON Card applications, the issue of AEON Cards, carrying out other Card Related Businesses and the right to collect certain fees payable by the Members to each of the PRC AEON Stores such as fees for re-issuing AEON Cards and defaulted debt collection charges.

For the purpose of issuing AEON Cards with credit function to Members, each of the PRC AEON Stores has entered into a credit guarantee agreement with ACG, a subsidiary of AEON Credit Japan, on normal commercial terms in which ACG provides a guarantee in respect of Members' credit purchase from each of the PRC AEON Stores. In the event that a Member does not repay the total amount of the outstanding debt balance in the AEON Card account on the repayment due date, ACG will pay such amount being the difference between the actual amount paid by the Member and the said total amount of the outstanding debt balance to each of the PRC AEON Stores and ACG will be assigned all the right to recover the said difference from the defaulting Member.

As at the date of this announcement, ACG is owned as to 50% by each of AEON Credit Japan and AEON Credit HK which in turn are owned as to 45.6% and 66.22% by AEON Co, a controlling shareholder of the Company, respectively. Accordingly, the transactions contemplated under the credit guarantee agreement constitutes a connected transaction of the Company under Rule 14A.13(2)(b)(i) of the Listing Rules. Under

such circumstances, the transactions under the credit guarantee agreement should be exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules as the credit guarantee agreement is for the benefit of the Company and on normal commercial terms where no security over the assets of the Company is granted.

Under the Outsourcing Arrangement, each of the PRC AEON Stores will issue its own AEON Cards to its Members and is required to enter into a card holder agreement with its Members which provides the terms and conditions of the use of AEON Card; and AIS will also set up service counters in the respective stores of each of the PRC AEON Stores and pay a fee to each of the PRC AEON Stores at a rate of no less than that paid by other third parties to each of the PRC AEON Stores.

Notwithstanding the Outsourcing Agreement, each of the PRC AEON Stores is entitled to appoint third party independent contractors to provide the Services to each of the PRC AEON Stores.

Pursuant to the terms of the Outsourcing Agreement, each of the PRC AEON Stores shall pay AIS the Service Fee which is determined between each of the PRC AEON Stores and AIS after arm's length negotiations with reference to the fee quotes obtained from other third party independent contractors to each of the PRC AEON Stores and the Service Fee offered by AIS which is lower than those offered by the other third party independent contractors.

The total aggregated amount payable by each of the PRC AEON Stores to the AIS and by AIS to each of the PRC AEON Stores under the Outsourcing Agreement shall not exceed the annual caps below:

Financial Year / Period	Annual Caps (HK\$)
21 July 2008 to 31 December 2008	18,900,000
1 January 2009 to 31 December 2009	42,000,000
1 January 2010 to 31 December 2010	42,000,000
1 January 2011 to 20 July 2011	23,100,000

The above-mentioned annual caps are determined with reference to the anticipated credit sales amount arising out of the Outsourcing Arrangement which is determined based on (i) the statistics and information collected by the respective PRC AEON concerning the payment methods employed by their customers which enable each of the PRC AEON Stores to estimate the total sales proceeds to be generated from credit sales; (ii) the plans concerning AEON Card promotion and Members recruitment activities; and (iii) the estimated business growth arising from the observable increase in the acceptability of credit purchase as reflected in the steady increase of the percentage of sales proceeds generated from credit purchase than from other payment methods in each of the PRC AEON Stores and economic growth in the PRC.

There is no prior transactions between the Group and Beijing AEON, Qingdao AEON, AIS or ACG which requires aggregation under Rule 14A.25 of the Listing Rules.

The Directors, including all the independent non-executive Directors, consider that the terms of the Outsourcing Agreement and the Outsourcing Arrangement are on normal commercial terms which are fair and reasonable and in the interest of the Company and its shareholders as a whole and that the Outsourcing Agreement and the Outsourcing Arrangement are entered into in the ordinary and usual course of the Company's business.

General

As of the date of this announcement, AIS is owned as to 50% by each of AEON Credit Japan and AEON Credit HK which in turn are owned as to 45.6% and 66.22% by AEON Co, a controlling shareholder of the Company, respectively.

Accordingly, the transactions contemplated under the Outsourcing Agreement constitute continuing connected transactions for the Company under the Listing Rules.

Below are the principal activities of the Company and the parties to the Outsourcing Agreement:

Entity	Principal activities
The Company	operation of general merchandise stores
Beijing AEON	operation of general merchandise stores
Qingdao AEON	operation of general merchandise stores
Guangdong JUSCO	operation of general merchandise stores
Shenzhen AEON	operation of general merchandise stores
AEON China	operation of general merchandise stores
AIS	provision of call centre services

The Directors believe that by entering into the Outsourcing Agreement, each of the PRC AEON Stores would be benefited from (i) the data analysis services by AIS to find out the purchase patterns and behaviour of different consumer groups which serve as a basis for designing effective promotional activities targeted to specific consumer groups; (ii) business growth which may be brought by the credit function of AEON Cards and the effective promotional activities (iii) the full range of Services of AIS which could not be provided by a single third party independent contractors; and (iv) more favourable terms including a lower Service Fee offered by AIS to provide the Services to each of the PRC AEON Stores than by other third party independent contractors. Prior to the Outsourcing Agreement, each of the PRC AEON Stores had obtained fee quotes but had not entered into similar contracts with other third party independent contractors.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Outsourcing Arrangement exceed 0.1% but are below 2.5%, the transactions under the Outsourcing Agreement are subject to the announcement and reporting requirements of Chapter 14A of the Listing Rules and exempt from the requirements of independent shareholders' approval under Rules 14A.45 to 14A.47 of the Listing Rules.

Definitions

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

“ACG”	AEON Credit Guarantee (China) Company Limited, a company established in the PRC and owned as to 50% by each AEON Credit Japan and AEON Credit HK which in turn are owned as to 45.6% and 66.22% by AEON Co, respectively
“AEON Card(s)”	the Group’s house card(s) with credit function in which the holders of the card may make credit purchase
“AEON Co”	AEON Co., Ltd., a company incorporated in Japan and the controlling shareholder of the Company
“AEON China”	AEON China Co., Ltd., a company incorporated in the PRC and wholly owned by the Company
“AEON Credit HK”	AEON Credit Service (Asia) Co., Ltd., a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange and is owned as to 51.94% by AEON Credit Japan whereas AEON Co is deemed to be interested in 66.22% of the issued share capital thereof
“AEON Credit Japan”	AEON Credit Service Co., Ltd., a company incorporated in Japan with limited liability, the shares of which are listed on the Tokyo Stock Exchange, Inc. and is owned as to 45.6% by AEON Co.
“AIS”	AEON Information Services (Shenzhen) Co., Ltd, a company incorporated in the PRC and owned as to 50% by each of AEON Credit Japan and AEON Credit HK which in turn are owned as to 45.6% and 66.22% by AEON Co respectively

“Beijing AEON”	Beijing AEON Co., Ltd., a company incorporated in the PRC and wholly owned by AEON Co
“Board”	the board of Directors
“Card Related Businesses”	such businesses including but not limited to organising Members recruitment activities, conducting eligibility examination and creditworthiness assessment on the applicants of AEON Card, the design of AEON Card, the maintenance of Members’ credit purchase records and accounts, the issue of monthly account statements to Members, the provision of computer systems for sales authorization and authentication, the handling and collection of Members’ repayment and defaulted debt, the management of Members’ accounts, the provision of customer services, the generation of monthly sales report and Members’ repayment report and the provision of data analysis services at the own costs of AIS
“Company”	AEON Stores (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guangdong JUSCO”	Guangdong JUSCO Teem Stores Co., Ltd., a company established in the PRC and owned as to 65% by the Company and 35% by a third party. To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiry, such third party and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Member(s)”	holder(s) of AEON Card
“Outsourcing Agreement”	the outsourcing agreement entered into between each of the PRC AEON Stores, Beijing AEON and Qingdao AEON as one party and AIS as the other party on 21 July 2008
“Outsourcing Arrangement”	the transactions contemplated under the Outsourcing Agreement
“PRC”	the People’s Republic of China
“PRC AEON Stores”	Guangdong JUSCO, Shenzhen AEON and AEON China
“Qingdao AEON”	Qingdao AEON Co., Ltd., a company established in the PRC and owned as to 65% by AEON Co and 35% by a third party. To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiry, such third party and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company
“Services”	including the handling of AEON Card applications, the issue of AEON Cards and carrying out other Card Related Businesses
“Service Fee”	a service fee equal to 2% of the total credit sales amount arising out of the Outsourcing Arrangement
“Shenzhen AEON”	Shenzhen AEON Friendship Co., Ltd., a company incorporated in the PRC and wholly owned by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board
Lam Man Tin
Managing Director

Hong Kong, 23 July 2008

As at the date of this announcement, the executive Directors of the Company are Mr. Lam Man Tin, Mr. Yutaka Fukumoto, Mr. Wong Mun Yu and Mr. Yutaka Agawa; the non-executive Directors are Mr. Akihito Tanaka, Mr. Masaaki Toyoshima, Mr. Kazumasa Ishii and Mr. Susumu Inoue; and the independent non-executive Directors are Prof. Lam Pei Peggy, Dr. Shao Kung Chuen, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna.