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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)

ANNOUNCEMENT

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE SUPPLEMENTAL TENANCY AGREEMENT**

Reference is made to the announcement of the Company dated 21 June 2007 in relation to the Tenancy Agreement between GD Jusco (a non-wholly owned subsidiary of the Company) and Teem Holding. Pursuant to the Tenancy Agreement, Teem Holding agreed to lease to GD Jusco the Premises until 30 June 2013.

The Board is pleased to announce that on 9 June 2010, the parties have entered into the Supplemental Tenancy Agreement to, *inter alia*, extend the lease until 30 June 2025.

Pursuant to Rule 14A.35(2) of the Listing Rules, an annual cap of RMB70 million has been set for each of the financial years ending 31 December 2025 for the rent and other fees payable under the supplemented Tenancy Agreement.

As the relevant percentage ratios in respect of the annual cap for the rent and other fees payable by the Company to Teem Holding and Teem Properties during the term of the supplemented Tenancy Agreement are more than 0.1 per cent. but less than 5 per cent., the entering into of the Supplemental Tenancy Agreement and the transactions contemplated thereunder are exempt from independent shareholders' approval but are subject to the reporting and announcement requirements under rules 14A.45 to 14A.47 of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 21 June 2007 in relation to the Tenancy Agreement between GD Jusco (a non-wholly owned subsidiary of the Company) and Teem Holding. Pursuant to the Tenancy Agreement, Teem Holding agreed to lease to GD Jusco the Premises until 30 June 2013.

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THE SUPPLEMENTED TENANCY AGREEMENT

Duration

The Tenancy Agreement had a term commencing 1 July 2006 and ending 30 June 2013. Pursuant to the Supplemental Tenancy Agreement, the term shall be extended to 30 June 2025.

Rent and other fees payable

Rent and management fees

Under the supplemented Tenancy Agreement, GD Jusco is to pay rent to Teem Holding and management fees to Teem Properties (a wholly-owned subsidiary of Teem Holding) for the Premises. While the rent and initial management fees have been fixed, the management fees may be subject to adjustment applicable to Teem Plaza (of which the Premises form part) as a whole. The rents and initially agreed management fees (to be paid monthly in cash) for the period commencing 1 July 2010 are as follows:

Period	Annual amount payable
<i>(1 July - 30 June)</i>	<i>(RMB millions)</i>
2010 – 2011	37.2
2011 – 2013	39.0
2013 – 2015	40.8
2015 – 2017	42.8
2017 – 2019	44.9
2019 – 2021	47.1
2021 – 2023	49.5
2023 – 2025	52.0

Utilities expenses, provisional showrooms, storage facilities and special equipment

Further, utilities expenses shall be payable by GD Jusco to Teem Properties under the supplemented Tenancy Agreement. Utilities expenses shall be calculated based on meter readings from independent meters installed in respect of the Premises, i.e. the actual usage by GD Jusco, subject to overall adjustments made by Teem Properties for the Teem Plaza as a whole and adjustments by utility companies from time to time.

Further, pursuant to the supplemented Tenancy Agreement, GD Jusco shall pay the relevant rents, usage charges and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that it may from time to time choose to rent or employ with the consent of Teem Holding.

OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

Rule 14A.35(1) of the Listing Rules provides that, in relation to non-exempt continuing connected transactions, under special circumstances where the nature of the transaction requires the agreement to be of a duration longer than three years, the independent financial adviser to the Company will be required to explain why a longer period for the agreement is required and to confirm that it is normal business practice for agreements of such type to be of such duration. Accordingly, Somerley has been appointed to explain why a longer period for the Supplemental Tenancy Agreement is required and to confirm that it is normal business practice for agreements of such type to be of such duration.

In arriving at its opinion, Somerley has relied on the information set out in this announcement, the Supplemental Tenancy Agreement and existing similar lease agreements entered into between the Group and independent third parties. In considering whether it is normal business practice for agreements of a similar nature to the Supplemental Tenancy Agreement to have a term of such duration, Somerley has reviewed a number of comparable transactions involving the leasing of properties by retail chain stores or department store operators (the “Comparable Transactions”). The Comparable Transactions selected by Somerley are based on the following criteria: (i) one of the parties to such transactions is listed on the Stock Exchange; (ii) such transactions are publicly announced by way of announcement or circular or prospectus pursuant to the Listing Rules; and (iii) such transactions relate to the leasing of properties by retail chain stores or department store operators. Somerley notes that the terms of the Comparable Transactions range from 5 to 20 years. Accordingly, the duration of the Supplemental Tenancy Agreement falls within the range of the tenure of the Comparable Transactions. On the basis of the above and having considered the duration of the existing lease agreements between members of the Group as lessee and the third parties as lessors which had durations ranging from 9 to 15.5 years, Somerley is of the view that it is normal and customary for retail chain stores or department store operators to enter into a long lease with the landlord to ensure a smooth operation and enable the Group to maximize the potential return on its investments. Somerley is of the opinion that the 15-year tenure under the Supplemental Tenancy Agreement is a normal commercial term for a transaction of this nature and it is normal business practice for contracts of this type to be of such duration.

THE CAP

Historical figures

The historical transaction amounts in respect of the Tenancy Agreement for the three years ended 31 December 2009 were as follows:

Period	Fees paid by the Company	
	(HK\$)	(RMB)*
Year ended 31 December 2007	42,509,000	37,194,000
Year ended 31 December 2008	44,278,000	38,741,000
Year ended 31 December 2009	45,828,000	40,098,000

Pursuant to Rule 14A.35(2) of the Listing Rules, an annual cap of RMB70 million has been set for each of the financial years ending 31 December 2025 for the rent and other fees payable under the supplemented Tenancy Agreement.

Such annual cap is set based on the rent, estimated management fees, estimated utility expenses and estimated costs for provisional showrooms, storage and other facilities payable by the Company to Teem Holding and Teem Properties.

REASONS AND BENEFITS

GD Jusco, a sino-foreign equity joint venture in the PRC which is held as to 65 per cent. by the Company and 35 per cent. by Teemall Department Stores (a wholly-owned subsidiary of Teem Holding), was set up in 1995 pursuant to a joint venture agreement between the parties. GD Jusco has been operating the department store on the Premises since 1996, which has successfully accumulated a substantial and valuable customer base, and achieved satisfactory business results in the past few years. As noted in the abovementioned joint venture agreement, the term of operation of the joint venture shall come to an end on 11 December 2010.

On 9 June 2010, the Company agreed with Teemall Department Stores to extend the term of the joint venture agreement in relation to GD Jusco until 2025. Since GD Jusco operates mainly out of the Premises, the parties agreed to extend the Tenancy Agreement accordingly to provide a stable operating platform for GD Jusco, avoiding the uncertainty of fluctuating rents. This helps ensure that the management of GD Jusco is able to focus its attention on operating, improving and developing its retail stores business.

Based on (i) the abovementioned views of Somerley on the reasonableness of the duration of the Supplemental Tenancy Agreement, and (ii) the commercial reasons set out above, the Directors (including the independent non-executive Directors) are of the opinion that:

- (1) the transactions under the Supplemental Tenancy Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company; and
- (2) such transactions and the annual cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND TEEM HOLDING

The Group is principally engaged in the operation of retail stores in Hong Kong, Macau and PRC.

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

GENERAL

Teem Holding holds the entire equity interest in Teemall Department Stores, which in turn is a substantial shareholder of GD Jusco, a subsidiary of the Company. Accordingly, Teem Holding is a connected person of the Company under the Listing Rules and the entering into of the Supplemental Tenancy Agreement constitutes a continuing connected transaction for the Company.

As the relevant percentage ratios in respect of the annual cap for the rent and other fees payable by the Company to Teem Holding and Teem Properties during the term of the supplemented Tenancy Agreement are more than 0.1 per cent. but less than 5 per cent., the entering into of the Supplemental Tenancy Agreement and the transactions contemplated thereunder are exempt from independent shareholders' approval but are subject to the reporting and announcement requirements under rules 14A.45 to 14A.47 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the respective meanings set out below unless the context requires otherwise:

“Board”	the board of Directors of the Company
“Company”	AEON Stores (Hong Kong) Co., Limited (Stock Code: 984), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning given to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“GD Jusco”	Guangdong Jusco Teem Stores Co., Ltd. (廣東吉之島天貿百貨有限公司), a sino-foreign equity joint venture in the PRC which is held as to 65 per cent. by the Company and 35 per cent. by Teemall Department Stores
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, 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
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan
“Premises”	GD JUSCO Teem Plaza Store which is situated at Basement 1, Teem Plaza, 208 Tianhe Road, Guangzhou, PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholders of the Company
“Somerley”	Somerley Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Company in respect of the duration of the Supplemental Tenancy Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Tenancy Agreement”	the supplemental tenancy agreement dated 9 June 2010 between GD Jusco and Teem Holding
“Teemall Department Stores”	Guangdong Teemall Department Stores Holdings Limited (廣東天河城百貨發展有限公司), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of Teem Holding
“Teem Holding”	Guangdong Teem (Holdings) Limited (廣東天河城 (集團) 股份有限公司), a company incorporated in the PRC with limited liability which is the holding company of Teemall Department Stores and the landlord of the Premises

“Teem Properties”

Guangdong Teem Properties Management Limited (廣東天河城物業管理有限公司), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of Teem Holding

“Tenancy Agreement”

the tenancy agreement dated 10 November 2006 entered into between GD Jusco as tenant and Teem Holding as landlord

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

Hong Kong, 9 June 2010

**Conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB 1.00 to HK\$1.1429. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at such or any other rate.*

As at the date of this announcement, the executive Directors of the Company are Mr. Lam Man Tin, Ms. Christine Chan Pui Man, Mr. Yuji Yoneta and Mr. Kenji Fujita; the non-executive Directors are Mr. Akihito Tanaka, Mr. Masaaki Toyoshima, Mr. Kazumasa Ishii and Mr. Fumiaki Origuchi; and the independent non-executive Directors are Prof. Lam Pei Peggy, Mr. Sham Sui Leung, Daniel, Ms. Cheng Yin Ching, Anna and Dr. Shao Kung Chuen.