

**AEON STORES (HONG KONG) CO., LIMITED**

永旺（香港）百貨有限公司

(the “Company”)

(Stock Code: 984)

**TERMS OF REFERENCE AND OPERATION  
OF  
AUDIT COMMITTEE**

**Membership**

1. The Audit Committee (the “Committee”) shall consist of at least three members appointed by the board of directors (“Board”) of the Company, and a majority of whom shall be independent non-executive directors. At least one member of the Committee shall be a financial expert.
2. The chairman of the Committee shall be an independent non-executive director appointed by the Board.

**Frequency and proceedings of meetings**

3. The Committee should meet at least twice annually.
4. The quorum of a meeting shall be two members of the Committee present in person.
5. Proceedings of meetings of the Committee shall be governed by the provisions of Article 120 of the Articles of Association of the Company.
6. The Company Secretary or in his absence, his delegate, shall act as the secretary of the Committee meetings.

**Authority and Duties**

7. The Committee shall:
  - (a) be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
  - (b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

- (c) develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) monitor integrity of the Company’s financial statements, annual report and accounts and half-year report and review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee shall focus particularly on: -
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:-
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company’s auditors; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company’s staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (f) review the Company’s financial controls, internal control and risk management systems;
- (g) discuss the internal control system with management to ensure that management has preformed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function;
- (h) consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;

- (i) where an internal audit function exists, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;
- (j) review the Group's financial and accounting policies and practices;
- (k) review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (l) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) report to the Board on the matters in the code provisions of the Corporate Governance Code under Appendix 14 to the Listing Rules;
- (n) act as the key representative body for overseeing the Company's relations with the external auditor;
- (o) review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (p) be provided with sufficient resources to perform its duties; and
- (q) consider other topics, as defined by the Board.

13 January 2012