

THE HONG KONG AND CHINA GAS COMPANY LIMITED
(the “Company”)
BOARD AUDIT AND RISK COMMITTEE (“BARC”)
TERMS OF REFERENCE

1 Membership

- 1.1 The BARC shall be appointed by the Board of Directors (“BOD”) and shall comprise non-executive directors only.
- 1.2 The BARC must comprise a minimum of three members, at least one of whom is an independent non-executive director (“INED”) with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).
- 1.3 The majority of the BARC members must be INEDs.
- 1.4 The Chairman of the BARC shall be appointed by the BOD and must be an INED.
- 1.5 A former partner of the Company's existing audit firm should be prohibited from acting as a member of the BARC for a period of two years from the date of his/her ceasing:
 - (a) to be a partner of the existing audit firm; or
 - (b) to have any financial interest in the existing audit firm,whichever is later.

2 Meetings

- 2.1 The BARC should meet at least twice a year. Additional meetings could be held at the demand of external auditors or BARC Chairman, if necessary.
- 2.2 A quorum shall be two members and at least one of them shall be an INED.
- 2.3 Resolutions of the BARC shall be passed by a majority of votes.

3 Attendance

- 3.1 The BARC may request members of management, the internal auditor and/or external auditors and/or other BOD members to be present at meetings of the BARC.

4 Minutes

- 4.1 Full minutes of BARC meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meetings should be sent to all BARC members for their comment and records within a reasonable time after the meeting.
- 4.2 The head of internal audit and risk management is appointed as the BARC Secretary unless decided otherwise by the BARC.

5 Authorities

- 5.1 The BARC is authorised by the BOD to inspect all accounts, books and records of the Company. The BARC is authorised by the BOD to obtain outside legal or other independent professional advices, at the Company's expense in order to discharge its duties.
- 5.2 Where the BOD disagrees with the BARC's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the BARC explaining its recommendation and also the reason(s) why the BOD has taken a different view.
- 5.3 The BARC should be provided with sufficient resources to perform its duties.

6 Responsibilities

- 6.1 The responsibility of the BARC is to assist the BOD in fulfilling its audit and control-related duties through the review of the Company's financial reporting, risk management and internal control systems. The review shall cover all material controls, including financial, operational and compliance controls and risk management functions.
- 6.2 The BARC shall report to the BOD on their decisions or recommendations, unless there are legal restrictions on their ability to do so.
- 6.3 The BARC also has the following responsibilities:

Relationship with the Company's auditors

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

6 Responsibilities (Cont'd)

Relationship with the Company's auditors (Cont'd)

- (c) to 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 BARC should report to the BOD, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor;

Review of the Company's financial information

- (e) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the BOD, the BARC should 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 Listing Rules and legal requirements in relation to financial reporting;
- (f) Regarding (e) above:
 - (i) members of the BARC should liaise with the BOD and senior management, and the BARC must meet, at least twice a year, with the Company's auditors; and
 - (ii) the BARC 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;

6 Responsibilities (Cont'd)

Oversight of the Company's financial reporting system, risk management and internal control systems

- (g) to review the Company's financial controls, risk management and internal control systems;
- (h) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems, such discussion should include:
 - (i) the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
 - (ii) the changes in the nature and extent of significant risks, and the ability of the Company to respond to changes in its business and the external environment;
 - (iii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems and the work of its internal audit function;
 - (iv) the extent and frequency of communication of monitoring results to the BOD which enables it to assess control of the Company and the effectiveness of risk management; and
 - (v) significant control failings or weaknesses that have been identified. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the financial performance or condition of the Company;
- (i) to consider major investigation findings on risk management and internal control matters as delegated by the BOD or on its own initiative and management's response to these findings;
- (j) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to review and monitor its effectiveness;
- (k) to review the Group's (including the Company and its subsidiaries) financial and accounting policies and practices;
- (l) to 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;
- (m) to ensure that the BOD will provide a timely response to the issues raised in the external auditor's management letter;

6 Responsibilities (Cont'd)

Oversight of the Company's financial reporting system, risk management and internal control systems (Cont'd)

- (n) to review arrangements which employees and other stakeholders who deal with the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The BARC should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (o) to report to the BOD on the matters in these terms of reference; and
- (p) to consider other topics, as defined by the BOD.

7 Publication of the Terms of Reference

7.1 The BARC should make available its terms of reference, explaining its role and the authority delegated to it by the BOD by including them on the respective websites of the Company and Hong Kong Exchanges and Clearing Limited.

21 August 2018

Note: If there is any inconsistency between the English and Chinese versions of this document, the English version shall prevail.

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