

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

**1 Membership**

- 1.1 The BAC shall be appointed by the Board of Directors (“BOD”) and shall comprise non-executive directors only.
- 1.2 The BAC 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 BAC members must be INEDs.
- 1.4 The Chairman of the BAC 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 BAC for a period of one year 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 BAC should meet at least twice a year. Additional meetings could be held at the demand of external auditors or BAC 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 BAC shall be passed by a majority of votes.

**3 Attendance**

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

## **4 Minutes**

- 4.1 Full minutes of BAC 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 BAC members for their comment and records within a reasonable time after the meeting.
- 4.2 The Head - Corporate Audit & Systems is appointed as the BAC Secretary unless decided otherwise by the BAC.

## **5 Authorities**

- 5.1 The BAC is authorised by the BOD to inspect all accounts, books and records of the Company. The BAC 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 BAC'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 BAC explaining its recommendation and also the reason(s) why the BOD has taken a different view.
- 5.3 The BAC should be provided with sufficient resources to perform its duties.

## **6 Responsibilities**

- 6.1 The responsibility of the BAC is to assist the BOD in fulfilling its audit and control-related duties through the review of the Company's financial reporting and internal control systems. The review shall cover all material controls, including financial, operational and compliance controls and risk management functions.
- 6.2 The BAC shall report to the BOD on their decisions or recommendations, unless there are legal restrictions on their ability to do so.
- 6.3 The BAC 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 BAC 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 BAC 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 BAC 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 BAC should liaise with the BOD and senior management, and the BAC must meet, at least twice a year, with the Company's auditors; and
  - (ii) the BAC 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 and internal control procedures*

- (g) to review the Company's financial controls, internal controls and risk management systems;
- (h) to discuss the internal control system with management to ensure that management has performed 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;
- (i) to consider major investigation findings on 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;
- (n) to review arrangements by which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The BAC 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 BAC 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.

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