

## HK Electric Investments Limited

港燈電力投資有限公司

*(Incorporated in the Cayman Islands with limited liability)*

together with HK Electric Investments (Stock Code: 2638)



### AUDIT COMMITTEE TERMS OF REFERENCE

#### 1. Membership

- 1.1 The Audit Committee of HK Electric Investments Limited (the “**Company**”) was established by resolution of the board (the “**Board**”) of directors (the “**Directors**”) of the Company on 5 December 2013 (the “**Audit Committee**”).
- 1.2 The Audit Committee shall consist of a minimum of three members (the “**Members**”). All Members shall be appointed by the Board and can be removed by the Board at its sole discretion subject to paragraph 1.6 below.
- 1.3 Membership shall be confined to non-executive Directors the majority of which must be independent non-executive Directors (“**INEDs**”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.
- 1.4 The Chairman of the Audit Committee shall be appointed by the Board and must be an INED.
- 1.5 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a Member for a period of one year from the date of his/her ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.
- 1.6 The membership of the Audit Committee must be the same as the membership of the audit committee of the board of directors of HK Electric Investments Manager Limited.

#### 2. Secretary

- 2.1 The company secretary of the Company shall be the secretary of the Audit Committee.
- 2.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Audit Committee.

#### 3. Frequency and Procedures of Meetings

- 3.1 The Audit Committee shall meet at least twice each year. The Company's external auditors may request that a meeting be held if they consider it necessary.
- 3.2 Notice of any meeting has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Notice of any adjourned meeting is not required if adjournment is for less than 14 days.
- 3.3 The Chairman of the Audit Committee shall act as chairman of a meeting. In the absence of the Chairman of the Audit Committee, the remaining Members present shall elect one of themselves who is an INED to chair the meeting.
- 3.4 The quorum for decisions of the Audit Committee shall be any two Members one of whom must be an INED.
- 3.5 Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 3.6 Resolutions of the Audit Committee shall be passed by a majority of votes. Only Members are entitled to vote at a meeting.
- 3.7 A resolution in writing signed by all the Members shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 3.8 Full minutes and resolutions in writing shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Members for their comment and records respectively within a reasonable period of time after the meeting. Minutes and resolutions in writing shall be made available for inspection on reasonable notice by any Director.

#### **4. Attendance at Meetings**

- 4.1 At least once a year, representatives of the Company's external auditors will meet the Audit Committee without any executive Directors being present, except by invitation of the Audit Committee.
- 4.2 At the invitation of the Audit Committee, the following persons may attend the meeting:
  - (i) the head of Internal Audit or in his/her absence, a representative from Internal Audit;
  - (ii) the Chief Executive Officer and the Chief Financial Officer (or persons occupying the same positions);
  - (iii) other members of the Board;
  - (iv) representative(s) of the external auditor or other external advisers; and
  - (v) other persons proposed by any Director.

## **5. Annual General Meeting**

- 5.1 The Chairman of the Audit Committee or in his/her absence, another Member, shall attend the Company's annual general meeting and be prepared to respond to any questions from the Company's shareholders on the Audit Committee's activities and their responsibilities.

## **6. Responsibilities, Powers and Discretion**

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting system and internal control system. The Audit Committee shall have the following responsibilities, powers and discretion:

### *Relationship with the Company's external auditors*

- 6.1 to be primarily responsible for making recommendations to the Board 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 resignation or dismissal of the external auditor;
- 6.2 to act as the key representative body for overseeing the Company's relations with the external auditor;
- 6.3 to review and monitor the external auditor's independence and objectivity;
- 6.4 to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.5 to develop and implement policy on the engagement of external auditor to supply non-audit services, and 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;
- 6.6 to report to the Board, identifying and making recommendations on any of the above matters where action or improvement is needed;

### *Review of financial information of the Company*

- 6.7 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports (if applicable), to review any significant financial reporting judgments contained in them, and in reviewing the reports before submission to the Board, to focus particularly on:
- (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;

- (c) significant adjustments resulting from audit;
- (d) the going concern assumptions and any qualifications;
- (e) compliance with accounting standards; and
- (f) compliance with the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange Limited (the “Listing Rules”), legal requirements and any applicable rules in relation to financial reporting;

6.8 In regard to paragraph 6.7 above:

- (a) Members should liaise with the Board and senior management; and the Audit Committee must meet, at least twice a year, with the Company’s external auditor; and
- (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and 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 person occupying the same position), or external auditor;

*Oversight of the Company’s financial reporting system and internal control procedures*

- 6.9 to review the Company’s financial controls, internal control and risk management systems;
- 6.10 to discuss the internal control system with management and to ensure that management has performed its duty to have an effective internal control system. Such discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function;
- 6.11 to 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;
- 6.12 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;
- 6.13 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 6.14 to review the external auditor’s management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and the management’s response;
- 6.15 to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- 6.16 to review arrangements which employees of the Company can use in confidence to raise concerns about possible improprieties in financial reporting, internal control or

other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

#### *Corporate Governance Functions*

- 6.17 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- 6.18 to review and monitor the training and continuous professional development of Directors and senior management;
- 6.19 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 6.20 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- 6.21 to review the Company's compliance with the Corporate Governance Code (Appendix 14 to the Listing Rules) and disclosure in the Corporate Governance Report to be issued in accordance with Appendix 14 to the Listing Rules;

#### *Report to the Board and other matters*

- 6.22 to consider and carry out any other matters specifically referred to the Audit Committee by the Board; and
- 6.23 to report on all of the above matters to the Board.

### **7. Reporting Responsibilities and Procedures**

- 7.1 Without prejudice to the generality of the duties of the Audit Committee set out in these terms of reference, the Audit Committee shall report to the Board after each meeting, except on matters where there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

### **8. Authority**

- 8.1 The Audit Committee is authorised by the Board to inspect all accounts, books and records of the Company.
- 8.2 The Audit Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company, its subsidiaries or affiliates, as may be required for the purpose of performing its duties.
- 8.3 Any Member may, at the Company's expense, seek external independent professional advice or secure the attendance of outsiders with relevant experience and expertise if it considers this necessary in appropriate circumstances to perform his/her duties as a Member.

8.4 The Audit Committee shall be provided with sufficient resources to perform its duties.

## **9. Disagreement as to external auditors**

9.1 In the event the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee shall provide a statement explaining its recommendations to the Company for inclusion in the Corporate Governance Report to be issued by the Company in accordance with Appendix 14 to the Listing Rules.

## **10. Publication of the Terms of Reference**

10.1 These terms of reference are posted on the respective websites of the Company and Hong Kong Exchanges and Clearing Limited in order to explain its role and the authority delegated to it by the Board. A copy of the terms of reference will be made available to any person without charge upon request.

*Dated: 5 December 2013*