

## CLP HOLDINGS LIMITED

Board Committees	SECTION
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A. Responsibilities

The Audit Committee (the “Committee”) is appointed by the CLP Holdings Board of Directors to carry out the following responsibilities on behalf of the Board:

1. assure that adequate internal controls are in place and followed;
2. assure that appropriate accounting principles and reporting practices covering financial and non-financial reporting are followed;
3. satisfy itself as to the adequacy of the scope and direction of external and internal auditing;
4. consider the qualifications and independence of the External Auditors;
5. satisfy itself as to compliance with any applicable legal and regulatory requirements;
6. satisfy itself as to compliance with the requirements of each stock exchange on which the Company’s securities are listed;
7. satisfy itself that proper business ethics have been followed across the CLP Group;
8. review audit and control related corporate representations made to External Auditors, the Internal Auditor and to shareholders;
9. satisfy itself that good accounting and audit principles, risk management, internal controls and ethical practices are applied on a consistent basis throughout the CLP Group (without limiting the responsibilities of the boards of CLP subsidiaries in this respect);
10. contribute towards a climate of discipline, risk management awareness and internal control within the CLP Group; and
11. to the extent, if any, not already comprised within the above responsibilities, to fulfill the functions conferred on the Committee by the CLP Code on Corporate Governance and as required under the Hong Kong Stock Exchange Corporate Governance Code,

and, in each case, to take approved action if within its delegated authority or make recommendations to the Board as it deems appropriate.

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B. Members

The Committee shall be comprised solely of Non-executive Directors of the Company who are “independent” as defined by the Stock Exchange listing rules. At least one member of the Committee shall have “financial expertise” as defined by those rules.

Composition (as from 9 May 2014)

Mr. V. F. Moore, Chairman  
 Mr. Nicholas C. Allen, Member  
 Mrs. Fanny Law, Member  
 Ms. Irene Lee, Member

C. Attendees

- Except on occasions requiring the Committee to meet without the presence of management:
  - The Chief Executive Officer, Chief Financial Officer and Internal Auditor should attend every meeting.
  - Other members of senior or functional management may attend to deal with relevant matters on the agenda.
- The representatives of the External Auditor are invited to attend every meeting of the Committee.
- The chairman and/or members of the EnergyAustralia Audit & Risk Committee are invited to attend the Committee, especially for issues affecting EnergyAustralia.
- Other Board members may attend meetings of the Committee by request or invitation.

D. Authority

The Committee is authorised by the Board to investigate any activity within its functions and responsibilities outlined in these terms of reference. It is authorised to seek any information it may require from any employee, director, agent or advisor and all such persons will be directed to co-operate with any request made by the Committee.

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The Committee shall have unrestricted access to the Executive Directors, other executive officers or employees, the External Auditor and Internal Auditor. The External Auditor and Internal Auditor shall have the right to consult the Committee without reference to management. The Committee shall also have the right to consult the External Auditor and Internal Auditor without reference to management or the management without reference to the External Auditor and Internal Auditor.

The Committee is authorised by the Board to obtain external legal or other independent professional advice, to secure the attendance of outsiders with relevant experience and expertise, and to approve the fees payable to such advisors and any other terms of retention, if it considers this necessary.

E. Activities in respect of

Internal Audit

1. conduct annual audit planning reviews with the Internal Auditor at which time the Internal Auditor will review the general adequacy of the accounting, risk management and internal control systems and will outline the indicated internal audit programme in respect of the Company and its subsidiaries for review and guidance by the Committee;
2. at least quarterly conduct audit activity reviews with the Internal Auditor at which time the Internal Auditor will highlight the significant events and findings which, in his/her opinion, require the Committee's knowledge and/or attention. As background preparation for such reviews, the Internal Auditor will make available to each member of the Committee through the Committee Secretary internal audit reports in respect of the Company and its subsidiaries, or a summary of reports as appropriate. An annual report on the activities of the Committee for each fiscal year will be submitted to the Board;
3. ensure co-ordination between the Internal and External Auditor is adequate and to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the internal audit function. The independence of Internal Audit and its appropriate standing within the Company is ensured by having Internal Audit report to the Committee except that the Chief Executive Officer will deal with Internal Audit for administrative matters;
4. review and monitor the effectiveness of the risk management and internal control systems, the internal audit function and the annual audit plan based on a risk methodology process;

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5. meet with the Internal Auditor on an ad-hoc basis whenever the Internal Auditor concludes that a financial safeguard measure warrants special review by the Committee;

External Auditor

6. appoint, retain, dismiss and replace the Group's External Auditor, subject to endorsement by the Board and final approval and authorisation by the Shareholders of the Company in General Meeting, and to approve the remuneration and terms of engagement of the External Auditor, and any questions of its resignation or dismissal;
7. act as the key representative body for overseeing the Company's relations with the External Auditor;
8. meet with the External Auditor at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any accounting, financial and non-financial reporting or internal control matters the auditors may wish to raise;
9. review and monitor the effectiveness of the audit process in accordance with applicable standards and discuss with the External Auditor the nature and scope of the audit and reporting obligations before the audit commences;
10. review the work of the External Auditor (including the resolution of any disagreement between management and the External Auditor regarding financial and non-financial reporting) for the purpose of preparing or issuing an audit report or related work, the scope of their audit and any other services, and approve the fees for and terms of their services. As part of such review:
  - i) suggest to the External Auditor the performance of any supplementary audit activities deemed by the Committee to be appropriate;
  - ii) review with the External Auditor recent or anticipated developments in accounting principles or reporting practices that may affect the Company or the scope of the audit; and
  - iii) discuss major anticipated audit problems, if any;

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11. review results of audits performed by the External Auditor including any changes in accounting procedures and/or the system of internal controls noted or developed during the audit examination along with matters of controversy, if any, with management. Determine appropriate action required on significant control weaknesses, and recommend such actions to the Board of Directors;
12. meet with the External Auditor whenever the External Auditor consider it necessary to review any accounting, financial or non-financial reporting or internal control matter with the Committee;
13. review the External Auditor's management letter, any material queries raised by the External Auditor to management about accounting records, financial accounts or systems of control and management's response;
14. ensure that the issues raised in the External Auditor's management letter are dealt with in a timely manner;

#### Independence of External Auditor

15. develop and implement policy in line with the CLP Code on Corporate Governance on engaging the External Auditor to supply non-audit services and to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
16. pre-approve all permissible audit related and non-audit services (other than "impermissible non-audit services"<sup>1</sup>) to be performed by the External Auditor and the associated fees, and monitor to ensure that the performance of these services does not impair the independence of the External Auditor in connection with their audit. Each audit related or non-audit service to be performed by the External Auditor shall be separately identified in connection with its pre-approval<sup>2</sup>;

<sup>1</sup> The following services, if provided by the External Auditor or any associated person of the External Auditor, shall be "impermissible non-audit services": (i) bookkeeping or other services related to the accounting records or financial statements; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, providing fairness opinions or preparing contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service which is prohibited through regulation.

<sup>2</sup> The authority to grant pre-approvals for the provision of non-audit services, other than "impermissible non-audit services" shall be exercised by the Committee in meeting or by circular provided that a majority of all members (including any temporarily absent) shall agree to the pre-approval and no member shall have expressly objected to the pre-approval.

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17. conduct annual review of all audit related and non-audit services performed by the External Auditor to ensure that such services do not impair the independence of the External Auditor and that such services do not include any impermissible services;
18. approve the policies on hiring employees or former employees of the External Auditor and monitoring the application of these policies to examine whether there has been or appears to be any impairment of the auditor's judgement or independence for the audit;
19. obtain from the External Auditor a confirmation of independence at least annually, including advice on rotation of audit partners and staff;

Financial and Non-Financial Reporting

20. review and monitor the completeness, accuracy and fairness of half-year and annual financial statements before submission to the Board with particular regard to changes in accounting policies and practices, major judgmental areas, adequacy of disclosure, consistency within the financial statements and with prior disclosures, any significant audit adjustments, the going concern assumption and any qualifications, compliance with any applicable legal requirements and accounting standards and compliance with the requirements of the Listing Rules and other legal requirements in relation to financial or non-financial reporting;
21. the Audit Committee will consider any significant and unusual items that are, or may need to be, reflected in the report and financial statements and will give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function and for the provision of non-financial information, compliance officer or auditors;
22. review the assurance of the sustainability data in the Sustainability Report;

Risk Management and Internal Control

23. review the systems of financial control, risk management and internal control;

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24. discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include an annual review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, risk management, internal control and financial reporting functions;
25. review the Group top tier risk reports on a periodic basis and make reports to the Board if thought appropriate;
26. consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
27. review the Group's financial and accounting policies and practices. Special meetings may be called at the discretion of the Chairman or the request of senior management to review significant control or financial issues;
28. review the annual general representation letters from the Chief Executive Officer and Chief Financial Officer;

Corporate Governance

29. review and endorse the Company's policies and practices on Corporate Governance and make recommendations to the Board;
30. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
31. review and monitor compliance with the Company's Code of Conduct by employees;
32. review the Company's compliance with the CLP Code on Corporate Governance and disclosure in the Corporate Governance Report;
33. review shareholders' communication policy on a regular basis to ensure its effectiveness;

Whistleblowing

34. monitor the use and effectiveness of the whistleblowing policy and system for employees and other stakeholders who deal with the Company to raise

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concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company, including but not limited to improprieties in financial reporting, internal control and audit matters;

35. ensure that proper arrangements are in place for fair and independent investigation of these improprieties and for appropriate follow-up action;
36. receive, review and act upon any report regarding evidence of any material violation of securities law or breach of fiduciary duty or similar violation by the Company or any agents thereof, if such a report is submitted to the Committee by an attorney or otherwise;

#### General

37. engage in any other activities consistent with the Committee's objectives and responsibilities and to consider other topics, as defined by the Board; and
38. report to the Board on the above matters.

#### F. Meetings

The meetings and proceedings of the Committee are governed by the provisions contained in the Company's Articles of Association for regulating the meetings and proceedings of Directors. Three members present in person or by telephone, video or other electronic means shall be a quorum for the Committee meetings until the Board has otherwise determined.

The Company Secretary, or in her absence, her delegate, shall act as the secretary to the Committee and must ensure that full minutes are kept of all meetings. The minutes of meetings and reports of the Committee shall be circulated to all members of the Board after approval by the Committee.