

## **Terms of Reference for the Audit Committee of the Board of Directors of China Longyuan Power Group Corporation Limited**

**Article 1** The Terms of Reference is formulated in accordance with the Company Law of the People’s Republic of China, Code on Corporate Governance Practice of the Hong Kong Listing Rules, Articles of Association of China Longyuan Power Group Corporation Limited (hereinafter referred to as the “Articles of Association”), the Terms of Reference for the Board of Directors of China Longyuan Power Group Corporation Limited and the applicable regulatory requirements, in order to standardize the organizational work, matrix of responsibilities and work procedures of the Audit Committee of the Board of Directors, and to ensure the authenticity of the Company’s financial information and effectiveness of internal controls.

**Article 2** The Audit Committee is established by the Board of Directors, and is a professional committee of the Board of Directors. The committee reports its work under the Terms of Reference herein to the Board of Directors and is responsible to the Board of Directors.

When performing its duties, the Audit Committee shall comply with the applicable laws and regulations, the Articles of Association and the requirements of the Terms of Reference herein and accept the supervision by the Supervisory Board in accordance with the law.

**Article 3** The Audit Committee shall consist of three non-executive Directors, the majority of whom should be independent ones. The committee shall establish a chairman, who should be an independent non-executive Director.

**Article 4** Members of the Audit Committee should meet the following requirements:

- (1) have the skills and experience compatible with the Company’s business;
- (2) have a certain level of financial knowledge;
- (3) at least one member should have accounting or related financial management expertise, and meet the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited on the qualifications of financial professionals of the audit committee.

Article 5 Members of the Committee shall be appointed and dismissed by the Board of Directors. The term of office of the committee members is the same as that of directors and they may be reappointed. If one member no longer serves as the director of the Company or an independent non-executive director during his term, he will automatically lose his qualification as a member. To let the staffing of the Audit Committee meet the requirements of the Terms of Reference, the Board of Directors shall make up for the quorum of the Committee in a timely manner according to the above provisions.

Article 6 The Committee shall hold at least two regular meetings annually in the form of site meeting or communications conference. The Chairman of the Audit Committee may convene a meeting by himself or at the request of the independent accountant or internal auditor. Interim meetings may be convened upon proposal made by more than two members of the Committee.

The Audit Committee meetings shall be held only if more than two-thirds of the members are present. The meetings shall be presided over by the chairman; if the chairman is unable to attend, he may entrust another member of the Committee to preside over. If one committee member is unable to attend the meeting, he may authorize another member to exercise his power in written form.

Article 7 The Audit Committee shall submit a proposal to the Board of Directors according to the discussion after each regular meeting.

(1) The first regular session shall be convened before the Board of Directors holds the meeting to consider the annual financial report of that year. The main topics shall include:

Discuss the Company's financial report and profit distribution plan for the previous year;

Discuss the Company's internal audit reports for the previous year;

Discuss the Company's internal control report for the previous year;  
Discuss the Company's report on related transactions of the previous year;  
Discuss the report on audit fees of the independent accountants' firm;  
Discuss the proposal on employing the domestic and foreign accountants' firm of the Company;

Listen to the audit report on the financial position by the independent accountants' firm for the previous year.

- (2) The second regular meeting shall be convened before the Board of Directors holds the meeting to consider the interim financial report of that year. The main topics shall include:

Discuss the Company's interim financial report and profit pre-distribution scheme;

Listen to the views of the independent accounting firm on the interim financial condition.

Article 8 The Audit Committee may entrust the Secretary of the Board of Directors to handle the following routine work:

- (1) distribute the agenda and related support materials to the members of the Audit Committee seven days prior to each meeting of the Audit Committee;
- (2) be responsible for the minutes of the meeting, collecting the views of all participating members, writing an opinion of the Committee and distributing it to the members present to sign;
- (3) distribute the meeting minutes to the members of the Board of Directors and Audit Committee fourteen days since the conclusion of the meeting.

Article 9 The Audit Committee shall be responsible for reviewing the completeness of the Company's annual and interim reports and related financial statements and accounts, and to review significant financial reporting judgments contained.

The Audit Committee shall review the financial accounting statement prepared by the Company before the annual accountant enters, and formulate written comments. To review the Company's financial accounting statement again after the annual accountant issues their preliminary audit opinion, and formulate written comments.

Article 10 Before submitting the annual, interim and quarterly financial reports to the Board for approval, the Audit Committee shall present the representations of review of the Company's financial statements and related information to the Board of Directors. The Committee should consider any significant and unusual issues reflected or need to be reflected in the financial report and accounts, and give due consideration to matters raised by the Company's chief accountant and independent accountant, giving particular attention to the following matters:

- (1) changes in accounting policies and practices;
- (2) matters needing major judgments;
- (3) significant adjustments made according to the audit activities;
- (4) sustainable operation assumptions and any reservations;
- (5) compliance with relevant accounting standards that must be followed;
- (6) compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and related laws and regulations on financial reporting, risk management and internal control system, including new rules recently announced by the professional and regulatory bodies, and to comprehend the possible impacts on financial reporting.

On the above matters,

- (i) members of the Committee must consult with the Board of Directors and senior management, and the Committee must meet at least twice with the external auditor each year;
- (ii) the Committee shall consider significant or unusual issues reflected in or may need to be reflected in the reports and accounts, and must carefully consider matters raised by the responsible accounting and financial reporting personnel, compliance officer or auditor.

Article 11 The Audit Committee should inspect and monitor the work of the internal audit department based on the relevant rules of overseas place where the Company's Shares are listed.

Article 12 The Audit Committee shall have the responsibility to monitor the Company's financial reporting system and internal control procedures, and to review and assess the following items:

- (1) audit the accounting policies and practices of the Company for the preparation of financial statements;
- (2) monitor the process of preparing periodic financial reports (interim financial report and annual financial report) and review the disclosure of related information of other notices announced in periodic financial reports and financial results;
- (3) evaluate the validity of the internal control and risk management framework, discuss the scope and quality of the internal control system with the management, ensure that the management has performed its responsibilities in guaranteeing an effective internal control system;
- (4) ensure whether the resources of accounting, internal auditing and financial reporting functions, the qualifications and experience of accounting and financial reporting personnel as well as the training plan and budget expenses of relevant employees of the Company are adequate;
- (5) in case of any suspected dishonesty or non-compliance or suspected violation of laws, rules and regulations, review the results of internal investigations and management's response;
- (6) evaluate whether the Company has substantial errors and weaknesses in internal control;
- (7) review and monitor the scope, efficiency and functions of the internal audit control system as well as the risk management, ensure the independence of the internal audit functions, ensure the coordination between internal and external auditors, as well as guarantee that the internal audit functions have sufficient resources and appropriate positions within the Group;
- (8) ensure the reports on the results of control presented by the departments of relevant functions to the Board of Directors and the committees thereunder are sufficient and effective in terms of details and frequency;

- (9) discuss any proposals arising in the audit with external auditors; review the management proposal raised by auditors regarding the situations of audit to the management; to investigate any reasonable doubts raised by the accounting firm to the management in relation to the accounting records, financial accounts or monitoring system, and management feedback or other documents for communication, and to ensure that the independent accountants and management can communicate effectively;
- (10) ensure that the Board of Directors shall make a timely response to matters raised by external auditors in the management proposal;
- (11) comprehend the internal controls and processes implemented by the management, and ensure that the financial statements obtained from the established financial system comply with relevant standards and requirements, and have been reviewed and approved by the management;
- (12) evaluate the changes in the nature and the severity of the substantial risks that the Company has faced subsequent to the previous year and the capabilities of the Company to respond to the changes in its businesses and the external environment;
- (13) consider other issues raised by the Board of Directors.

Article 13 The Audit Committee shall perform audit and supervisory duties on the engagement and services of the accountant's firm:

- (1) the Audit Committee shall, through consultation with the accountant's firm, determine the arrangement of time of the auditing of financial reports for the year; supervise the accounting firm to submit audit reports within the stated period of time, and record the manner, frequency, results and signature of related responsible persons for confirmation of the supervision in the form of written comments;
- (2) conduct an annual audit on the performance of the accountant's firm, submit a summary report of the current year's auditing work conducted by the accountant's firm to the Board of Directors, and provide recommendations to the shareholders' general meeting together with the Supervisory Board on the appointment, reappointment and dismissal of the accountant's firm and its audit service fees for the next fiscal year;

- (3) audit the qualifications of the accountant's firm (including background and experience of the partners and auditors) and its independence, ensure the regular rotation of the responsible partners are in compliance with relevant laws and regulations and relevant listing rules of overseas place where the Company's Shares are listed.
- (4) discuss and review the audit scope and approach of the year proposed by the independent accountant in accordance with the changes in existing laws and regulations and other regulatory requirements before commencing of the auditing work, evaluate whether the contents and procedures are objective and effective, and pre-approve the audit services;
- (5) establish the policy for the accountant's firm in providing non-audit services, ensure that such services do not affect its independence or objectivity, and to propose suggestions or adoptable steps that can be taken by the Board of Directors for improvements that may influence the accounting firm in providing non-audit services, review and approve the matters and costs for the accounting firm in providing non-audit services to the Company;
- (6) discuss with the independent accountants on matters deemed by both parties to be discussed independently, and ensure that the independent accountant can communicate with the Audit Committee smoothly whenever necessary;
- (7) obtain the report that stating the Company's situation of internal quality control and the possible existence of major defects and deficiencies each year from the accounting firm;
- (8) as the main representative, to monitor the relationship between the Company and the external auditors;
- (9) audit the policy for the Company to employ staff and former staff of the accounting firm and monitor its implementation.

Article 14 The Audit Committee shall establish procedures to deal with the following complaints:

- (1) accept, keep and deal with complaints about accounting, internal accounting control or auditing that the Company is informed of;

- (2) accept and deal with complaints or anonymous reporting on accounting or auditing from the staff, and ensure its confidentiality;
- (3) review the arrangements on staff's concern about possible inappropriateness in financial reporting, internal controls or other matters under the condition of anonymity. The Committee shall ensure that the Company has suitable arrangements for the fair and independent investigation of matters and take appropriate follow-up actions.

Article 15 The Audit Committee shall maintain periodic contact with the Board of Directors, senior management and independent accountants.

The Audit Committee shall discuss with the management the risk management and internal control system, ensure that the management has performed its duties and established such effective systems. The contents to be discussed shall include the resources of the Company in accounting and financial reporting functions, the sufficiency of the qualifications and experience of the staff; as well as the adequacy of the training courses for the staff and the relevant budget. The audit committee shall also discuss with the management the on-going supervisory risks, the scope and quality of the tasks of the internal control system as well as the internal audit functions and tasks of other guarantee providers.

The Audit Committee shall take the initiative to or, upon delegation by the Board of Directors, study the important investigation results of the relevant risk management and internal control matters as well as the response of the management to the investigation results.

The Audit Committee shall oversee the management on the design, execution and supervision of the risk management and internal control system, and urge the management to confirm whether the abovementioned system is effective.

The Audit Committee shall meet with the Company's independent accountants at least twice annually.

Article 16 The Audit Committee shall have the right to engage independent accountants or other advisors (external consultants) to provide consulting services when exercising its power.

The Company shall bear the reasonable costs of employing external consultants when the Audit Committee performs its duties.



Article 17 The Audit Committee shall report the decisions and the formulated representations to the Board of Directors in form of written, and report the following matters regularly to the Board of Directors:

- (1) help the Board of Directors to keep abreast of important issues that may affect the Company's financial position and operations;
- (2) audit the self-assessment of Committee members and the Committee itself on the performance of duties.

Article 18 The Audit Committee shall urge the departments of relevant functions to disclose in the Corporate Governance Report the way the Company complies with the code provisions of the risk management and internal control during the reporting period. The relevant details shall include:

- (1) the procedures that the Company adopts for identifying, evaluating and managing substantial risks;
- (2) the principal features of the risk management and internal control of the Company;
- (3) the procedures that the Company adopts for reviewing the effectiveness of the risk management and internal control system;
- (4) the procedures of the Company for handling and releasing inside information as well as the internal control measures;
- (5) the frequency of the Board of Directors in conducting review in connection with the risk management and internal control system and the specification on whether the Company regards such systems as sufficient and effective.

The Audit Committee shall also urge the Board of Directors to disclose in the Corporate Governance Report whether the confirmation on the effectiveness of the risk management and internal control system of the Company has been obtained from the management and to disclose the details of other significant matters of concern.

Article 19 The "above" in the Terms of Reference includes the base number, and "day" refers to a working day. Unless otherwise specified, the terms used herein shall have the same meaning as ascribed to them in the Articles of Association.

- Article 20 The Terms of Reference shall become effective on the date when it is reviewed and approved by the Board of Directors.
- Article 21 The Terms of Reference shall be construed by the Board of Directors.
- Article 22 The Terms of Reference has both the Chinese and English versions. In case of any discrepancies between the Chinese version and the English one, the Chinese version shall prevail.