

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

CHAPTER I GENERAL PROVISIONS

Article 1 The Terms of Reference is formulated in accordance with the Company Law of the People’s Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Code of Corporate Governance for Listed Companies, the Self-regulatory Guidelines for the Companies Listed on the Shenzhen Stock Exchange No. 1 – Standardized Operation of the Companies Listed on the Main Board, 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 strengthen the audit and risk control work of China Longyuan Power Group Corporation Limited (hereinafter referred to as the “**Company**”), further enhance the supervisory role 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 supervises the Company’s finances, and the legality of the performance of duties by the Company’s directors and other senior management, and safeguards the legitimate rights and interests of the Company and its shareholders.

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.

Article 3 The Company guarantees the Audit Committee’s right to know and provides the Audit Committee with the necessary information and data in a timely manner, so that the Audit Committee can effectively supervise, inspect and evaluate the Company’s financial status and operation and management.

CHAPTER 2 COMPOSITION OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Article 4 The Audit Committee shall consist of three non-executive directors, the majority of whom should be independent directors. The Audit Committee shall establish a chairman, who should be an independent director. The chairman of the Audit Committee shall be a professional accountant.

Article 5 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 professional knowledge or working background regarding finance, accounting, auditing, etc.;
- (3) at least one member should have accounting or related financial management expertise, and meet the requirements of the securities listing rules of the place where the shares of the Company are listed on the qualifications of accounting professionals of the Audit Committee;
- (4) a former partner of the accounting firm currently responsible for auditing the accounts of the Company shall not be a member of the Audit Committee of the Company during a period of two years from the later of:
 1. the date on which such person ceases to be a partner of the company;
 2. or the date on which such person ceases to have a financial interest in the company.
- (5) the qualifications of members of the Audit Committee shall conform to other requirements of relevant laws and regulations in PRC and the listing rules of the place where the shares of the Company are listed.

Article 6 Members of the Audit 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 re-elected and reappointed. If one member no longer serves as a director of the Company or an independent 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 makes up for the quorum of the Committee in a timely manner according to the above provisions.

CHAPTER 3 DUTIES AND POWERS

Article 7 The main duties of the Audit Committee include:

- (1) review the financial position of the Company;
- (2) supervise the performance of directors and senior management in fulfilling their duties to the Company, and propose dismissal of directors and senior management that have violated laws, administrative regulations, the Articles of Association or resolutions of the shareholders' meeting;
- (3) demand rectification by directors and senior management of the Company when the acts of such persons are prejudicial to the Company's interests;
- (4) review the Company's financial information and its disclosures and, to engage certified public accountants or practicing auditors in the name of the Company to assist in the review whenever queries arise;
- (5) propose the convening of an extraordinary shareholders' meeting, and convene and preside over the shareholders' meeting when the Board of Directors fails to perform such duties provided by the Company Law;
- (6) organize and promote the rule of law construction of the Company and listen to the work report on the rule of law construction of the Company;
- (7) submit proposals to shareholders' meetings;
- (8) initiate litigations against directors and senior management in accordance with provisions set out in Article 189 of the Company Law on behalf of the Company in dealing with directors and senior management;

- (9) propose the convening of an extraordinary meeting of the Board of Directors;
- (10) investigate if unusual business operation is found in the Company and, if necessary, an accounting firm, law firm or any other professional organization may be engaged at the expense of the Company to assist its work;
- (11) supervise and evaluate the work of accounting firms and propose the appointment or change of the accounting firms;
- (12) supervise and evaluate the work of internal auditors;
- (13) coordinate communications among the management, the Company's audit department and relevant departments, and the accounting firms;
- (14) supervise and evaluate the internal control and risk management of the Company;
- (15) be responsible for other duties and responsibilities as stipulated in the laws and regulations, securities listing rules of the places where the shares are listed, the Articles of Association and the Terms of Reference.

Article 8

In the course of performing its duties, the following matters shall be approved by more than half of all members of the Audit Committee before submission to the Board of Directors for review and consideration:

- (i) disclosure of financial information in financial accounting reports and regular reports, and internal controls evaluation reports;
- (ii) appointment or dismissal of accounting firms;
- (iii) appointment or dismissal of financial controller of the Company;
- (iv) change of accounting policies and accounting estimates, or correction of significant accounting errors due to reasons other than changes in accounting standards;
- (v) other matters as stipulated by laws, administrative regulations, regulations of the securities regulatory authorities of the State Council and the Articles of Association.

Article 9

The Audit Committee shall review the Company's financial information and its disclosure:

- (1) supervise and evaluate the Company's financial information disclosure. Prior to submitting financial statements and reports to the Board of Directors, the Audit Committee shall review the aforementioned documents and the material opinions contained therein regarding financial reporting in advance, state whether the preparation and audit procedures of the periodic report are in compliance with the laws, administrative regulations, the requirements of the securities regulatory authorities of the State Council and the Shenzhen Stock Exchange, express opinions on the authenticity, completeness as well as accuracy of the Company's financial reports, and review the major opinions contained in the aforementioned statements and reports regarding financial reporting;
- (2) focus on material accounting and auditing issues in the Company's financial reports, including adjustments to material accounting errors, changes in significant accounting policies and estimates, matters involving material accounting judgments, and matters resulting in non-standard unqualified audit reports;
- (3) pay particular attention to the possibility of fraud, misrepresentation, and material misstatement relating to financial reporting;
- (4) members of the Committee shall communicate with the directors and management and hold meetings with the auditing firms at least twice a year. The Committee shall consider any significant or unusual items that are, or may need to be, reflected in reports and accounts and shall give due consideration to any matters that have been raised by the Company's accountants, head of audit department or accounting firms;
- (5) review the Company's financial and accounting policies and practices, comply with the financial reporting requirements applicable to the rules governing the listing of securities in the places where the Company's shares are listed, and laws and regulations, including new rules recently promulgated by professional and regulatory institutions, and comprehend their potential impacts on financial reports.

Article 10 The Company establishes an audit department to inspect and supervise the establishment and implementation of the Company's internal control system and the truthfulness and integrity of the Company's financial information. The Company's audit department shall maintain independence and shall not be placed under the leadership of the finance department or co-located with the finance department.

The audit department shall accept the supervision and guidance of the Audit Committee in the process of supervising and inspecting the Company's business activities, risk management, internal control and financial information. If the audit department identifies any significant issues or clues, it shall report them directly to the Audit Committee immediately.

Article 11 The Audit Committee shall have the responsibility to monitor the Company's internal control procedures, and to review and assess the following items:

- (1) 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, including whether the resources required, the qualifications and experience of the accounting and financial reporting personnel and the training programmes and budgets expenses for the relevant employees are adequate;
- (2) in case of any suspected dishonesty or non-compliance, lack of internal control or suspected violation of laws, rules and regulations, review the results of internal investigations and management's response;
- (3) review and monitor the effectiveness of the internal audit function to ensure effective coordination between the Company and accounting firms and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (4) discuss any proposals arising in the audit with accounting firms; review the management proposal raised by auditors regarding the situations of audit to the management; to investigate any major 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 accounting firms and management can communicate effectively;

- (5) ensure that the Board of Directors shall make a timely response to matters raised by accounting firms in the management proposal;
- (6) comprehend the internal controls and processes implemented by the management, and ensure that the financial statements obtained from the financial system comply with relevant standards and requirements, and have been reviewed and approved by the management;
- (7) research other issues raised by the Board of Directors.

Article 12 The Audit Committee shall supervise and evaluate the work of the accounting firms and proposes the appointment or replacement of the accounting firms:

- (1) the Audit Committee shall, through consultation with the accounting 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;
- (2) provide recommendations on the appointment, reappointment and dismissal of the accounting firm and its audit service fees for the next fiscal year;
- (3) audit the qualifications of the accounting firm (including background and experience of the partners and auditors) and its independence and objectiveness, and ensure that the regular rotation of the responsible partners are in compliance with relevant laws and regulations and relevant listing rules of the place where the Company's shares are listed;
- (4) discuss and review the audit scope and approach of the year proposed by the accounting firm in accordance with the changes in existing laws and regulations and other regulatory requirements before commencing of the auditing work, and evaluate whether the contents and procedures are objective and effective, and pre-approve the audit services;
- (5) establish the policy for the accounting 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, and review and approve the matters and costs for the accounting firm in providing non-audit services to the Company;

- (6) discuss with the accounting firms on matters deemed by both parties to be discussed independently, and ensure that the accounting firms 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 accounting firms;
- (9) review the policy for the Company to employ staff and former staff of the accounting firm and monitor its implementation.

Article 13 The Audit Committee shall supervise and guide internal audit work, coordinate communication among the Company's audit department and related departments and the accounting firms:

- (1) supervise the appointment and dismissal of the head of the Company's audit department, put forward relevant opinions, and participate in the assessment of the head of internal audit;
- (2) guide and monitor the establishment and implementation of internal audit systems;
- (3) consider the Company's annual internal audit work plan;
- (4) coordinate communication and cooperation between the Company's audit department and the accounting firm;
- (5) other relevant matters stipulated by laws, administrative regulations, regulations of the securities regulatory authorities of the State Council and the Articles of Association.

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 those who deal with the Company, and ensure its confidentiality;

- (3) review the arrangements that allow staff and those who deal with the Company to raise 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 have the right to engage accounting firms 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 16 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 on important issues that help the Board of Directors keep abreast of and may affect the Company's financial position and operations.

CHAPTER 4 SYSTEM OF MEETINGS

Article 17 The Audit Committee shall hold at least one meeting every quarter. Interim meetings may be convened upon proposal made by two or more members of the Committee or if the chairman deems it necessary. Meetings may be held 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 accounting firm or the Company's audit department.

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 or fails to perform such duties, an Audit Committee member shall be elected by more than half of all Audit Committee members to convene and chair the meetings, and resolutions of the meetings shall require approval by more than half of all its members. Each member of the Audit Committee shall have one vote for a resolution to be approved by the Audit Committee. If one committee member is unable to attend the meeting, he may authorize another member to exercise his power in written form.

Where the members of the Audit Committee entrust other members to attend the meeting and exercise the voting rights on their behalf, they shall submit a power of attorney to the chairman of the meeting. The power of attorney shall be submitted to the chairman of the meeting prior to voting at the meeting.

Article 18 An interim meeting shall be convened in any of the following cases:

- (i) When the chairman of the Audit Committee deems it necessary;
- (ii) When a member of the Audit Committee has justifiable reasons to propose the convening of an interim meeting;
- (iii) When the Company has incurred or is incurring significant loss of assets and shareholders' rights and interests have been jeopardized;
- (iv) When the Company's directors or other executives violate laws, regulations and the Articles of Association and seriously jeopardize the Company's interests.

Article 19 The work arrangements, work reports, and related proposals and resolutions of the Audit Committee may be included in the agenda of regular or interim meetings after approval by its chairman.

The Audit Committee shall submit a memorandum to the Board of Directors after each meeting based on the discussions.

Article 20 The Audit Committee may entrust the secretary to 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 three days prior to each meeting of the Audit Committee;
- (2) be responsible for taking minutes of the meeting and collecting the views of all participating members as well as forming written meeting minutes,;
- (3) distribute the meeting minutes to the members of the Board of Directors and Audit Committee within fourteen days since the conclusion of the meeting;
- (4) the minutes of the Audit Committee meetings shall be kept as company files. During the existence of the Company, such minutes shall be kept for a period of ten years.

Article 21 The meeting of the Audit Committee shall take detailed minutes of the proceedings, which shall serve as official proof of the resolutions at the meeting of the Audit Committee. The minutes of the meeting of the Audit Committee include:

- (1) the date, venue and name of the presiding officer of the meeting;
- (2) the names of the members attending and the names of the principals and proxies handling the formalities;
- (3) the agenda; the main points of the members' speeches;
- (4) the manner of voting on and the results of each resolved matter (the results of the voting shall set out the number of votes cast in favor of, against, or abstaining from voting).

The Company shall designate a person to carefully organize the recording and collation of the proceedings of the meetings, and the minutes of each meeting of the Audit Committee shall be made available as soon as possible for review by all participating members. Members attending the meeting and the recorder shall sign the minutes. Members have the right to request that certain explanatory notes be made on the minutes regarding their speeches at the meeting.

Article 22 If the resolution made by the Audit Committee involves a proposal to convene an extraordinary Board of Directors meeting, an extraordinary shareholders' meeting or a provisional proposal to the annual shareholders' meeting, the Audit Committee shall submit in writing to the Board of Directors a proposal with a complete list of topics and contents for the meeting within a specified period of time and shall ensure that the contents of the proposal are in compliance with the laws, regulations and the provisions of the Articles of Association.

Article 23 The Company shall designate a specific person to actively monitor the implementation of the relevant resolutions, and promptly report to the Audit Committee and its chairman.

CHAPTER V SUPPLEMENTARY PROVISIONS

- Article 24** 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 25** In the Terms of Reference, “ accounting firm/auditor/accountant”, “related” and “independent director” have the same meaning as “auditor”, “connected” and “independent non-executive director”.
- Article 26** The Terms of Reference shall be construed and amended by the Board of Directors.
- Article 27** The Terms of Reference is prepared in Chinese. In case of discrepancies between the versions in other languages and the Chinese version, the Chinese version shall prevail.
- Article 28** The Terms of Reference shall come into effect and be implemented from the date upon consideration and approval by the Board of Directors, and consideration and approval of the Articles of Association by the shareholders’ meeting.