



Datang Environment Industry Group Co., Ltd.*

大唐環境產業集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1272)

**DATANG ENVIRONMENT INDUSTRY GROUP CO., LTD.
TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD
OF DIRECTORS**

CHAPTER 1 GENERAL PROVISIONS

Article 1 Pursuant to 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 (hereinafter refer to as the "**Listing Rules**"), including the Corporate Governance Code as set out in Appendix C1 thereof and applicable regulatory rules, the Articles of Association of Datang Environment Industry Group Co., Ltd. (hereinafter refer to as the "**Articles of Association**"), and the Rules of Procedures of the Board Meetings of Datang Environment Industry Group Co., Ltd., the rules have been laid down to regulate the formulation, responsibilities and working procedures of the Audit Committee of the board of directors (the "**Board**") of Datang Environment Industry Group Co., Ltd. (hereinafter referred to as the "**Company**" and hereinafter collectively referred to as the "**Group**" together with its subsidiaries) and to ensure the trueness of the financial information of the Company and the effectiveness of the internal control of the Company.

Article 2 The Audit Committee is established by the Board to exercise the powers and functions of the Supervisory Committee as stipulated in the Company Law. The Audit Committee, as a special committee, is responsible for reporting duties to the Board and shall be accountable to the Board. In fulfilling its responsibilities, the Audit Committee shall abide by the applicable laws, regulations, the Articles of Association and the rules herein. By virtue of legislative requirements, the Audit Committee shall be subject to the supervision by the shareholder's meeting of the Company.

CHAPTER 2 COMPOSITION OF COMMITTEE

Article 3 The Audit Committee shall consist of three or more non-executive directors who do not serve as senior management personnel of the Company, a majority of which shall be independent non-executive directors. The Audit Committee shall have one chairman who also serves as the convenor, and shall be an accounting professional among the independent non-executive directors.

Article 4 Members of the Audit Committee shall satisfy the following requirements:

- (i) possessing skills and experience compatible to the business of the Company;

- (ii) possessing certain financial knowledge;
- (iii) at least one member must have professional experience in accounting or financial management, meeting the requirements regarding the qualifications for financial professionals of the Audit Committee as provided in the Listing Rules.

The existing external auditor's partner may not act as the member of the Audit Committee within two years commencing from the date on which such partner left the office or no longer enjoyed the financial benefits acting as the existing external auditor (whichever occurred later).

Article 5 The election and replacement of the members of the Audit Committee shall be conducted by the Board. The term of office of the Audit Committee shall be the same as that of the Board. Members of the Audit Committee shall be eligible for re-election. During his/her term of office, if any committee member ceases to be a director or an independent executive director of the Company, his/her membership in the Audit Committee shall lapse automatically. In order to make the constitution of members of the Audit Committee satisfy the requirements of the rules, the Board shall timely fill such vacancy/vacancies to make up the number of the members in accordance with the foregoing provisions of the rules.

CHAPTER 3 WORKING PROCEDURES

Article 6 The Audit Committee shall meet at least once every quarter. An interim meeting may be convened upon the proposal of two or more members, or when the convenor deems it necessary.

The meeting shall be held in form of on-site meeting or communication conference. The chairman of the Audit Committee shall convene a meeting unilaterally or at the request of the independent accountant or internal auditor.

The meeting of the Audit Committee may only be held with more than two thirds of the members of the committee attending such meeting. The meeting shall be presided over by the chairman and should the chairman fail to preside over the meeting, he/she may entrust one of the other committee members to preside over the meeting. Should a committee member fail to attend the meeting due to certain reasons, he/she may entrust other members to exercise his/her duties on his/her behalf in written form.

Resolutions of the Audit Committee shall be adopted by a majority of the members of the Audit Committee. Voting on resolutions of the Audit Committee shall be conducted on a one-person-one-vote basis. Minutes of the Audit Committee's resolutions shall be prepared in accordance with the regulations, and the members of the Audit Committee present at the meeting shall sign the minutes.

CHAPTER 4 WORKING RESPONSIBILITIES

Article 7 The Audit Committee shall be responsible for auditing the financial information of the Company and the disclosure thereof, as well as supervising and evaluating internal and external audits and internal control. The following matters shall be submitted to the Board for consideration after being approved by a majority of all members of the Audit Committee:

- (i) Disclosure of the financial information in financial and accounting reports and regular reports, and the evaluation report on internal control;
- (ii) Appointment or dismissal of an accounting firm which undertakes the audit work of the Company;
- (iii) Appointment or dismissal of the person in charge of the finance of the Company;
- (iv) Changes in accounting policies or accounting estimates or corrections of significant accounting errors due to reasons other than changes in accounting standards;
- (v) Other matters as required by the laws, administrative regulations, the regulations of the CSRC, regulatory rules of the place where the Company's shares are listed and the Articles of Association.

Article 8 After each meeting, the Audit Committee shall submit the letter of opinions to the Board based on the discussion at the meeting.

- (i) The Audit Committee shall meet at least once prior to the convening of the meeting of the Board for the consideration on the annual financial report for the current year. The main topics are:

To discuss about the financial report and profit distribution proposal of the Company for the previous year;

To discuss about the internal audit report of the Company for the previous year;

To discuss about the internal control report of the Company for the previous year;

To discuss about the connected transactions of the Company for the previous year;

To discuss about the report on audit fees of the independent accounting firm;

To discuss about the proposal for appointing the overseas and domestic accounting firms of the Company for the current year;

To oversee the Company's risk management and internal control systems, assess the effective implementation of internal controls and the self-evaluation of internal controls of the Company;

To listen to the audit report on the financial condition for the previous year prepared by the independent accounting firm.

- (ii) The Audit Committee shall meet at least once prior to the convening of the meeting of the Board for the consideration on the interim financial report for the current year. The main topics are:

To discuss about the interim financial report and profit distribution proposal of the Company for the year;

To listen to the review opinions regarding the interim financial condition prepared by the independent accounting firm.

Article 9 The Audit Committee may entrust the secretary of the Board to deal with the following routine matters:

- (i) To dispatch the agenda of the meeting and the relevant supporting materials to the members of the Audit Committee seven days prior to the convening of each meeting of the Audit Committee;
- (ii) To be responsible for recording and compiling various opinions from committee members who attended the meeting to form the letter of opinions and to deliver letter of opinions to committee members who attended the meeting for signature;
- (iii) To dispatch the minutes of the Board meeting and the members of the Audit Committee within fourteen days upon conclusion of the meeting.

Article 10 The Audit Committee shall be responsible for auditing and examining the completeness of the annual reports, interim reports and relevant financial reports and accounts of the Company, and for reviewing the significant opinions on financial reporting as contained in the foregoing statements and reports. The Audit Committee shall review the financial and accounting statements prepared by the Company prior to the engagement of the accountant(s) for the annual audit. After the preliminary audit opinions have been issued by the accountant(s) for the annual audit, the Audit Committee shall again review the financial and accounting statements of the Company and form the written opinions.

Article 11 Prior to its submission of the annual, interim and quarterly financial reports (if any) to the Board for approval, the Audit Committee shall submit the letter of review opinions regarding financial reports of the Company and relevant information to the Board. The Audit Committee shall take into consideration any material and unusual matters which are reflected in or are required to be

reflected in such financial reports and accounts and shall take into account of such matters as proposed by the chief accountant and the independent accountant of the Company in appropriate manner, and shall pay special attention to the following matters:

- (i) Any change in the accounting policies and practices;
- (ii) Areas involving important judgment;
- (iii) Significant adjustment arising from the conducting of audit works;
- (iv) Going-concern assumptions for the enterprise and any qualified opinions;
- (v) Whether it is in compliance with relevant accounting standards that must be observed; and
- (vi) Being in compliance with applicable provisions of the Listing Rules and the laws and regulations regarding financial reporting, including new rules recently promulgated by professional and regulatory institutions, and understanding the possible impact on the financial reports. For purposes of the foregoing matters,
 - (1) Members of the committee shall regularly consult with directors, senior management members and independent accountants. Moreover, the committee shall meet external auditor(s) at least twice each year;
 - (2) The committee shall take into consideration any material or unusual matters which are reflected in or are probably required to be reflected in such financial reports and accounts, and shall prudently and cautiously take into consideration any matters proposed by the person in charge of accounting and financial reporting or the auditor.

Article 12 The Audit Committee shall examine and supervise the work of internal audit department in accordance with the relevant rules of the place where the Company is listed overseas.

Article 13 The Audit Committee shall be responsible for monitoring the financial reporting system, risk management and internal control procedures and shall audit and assess the following items:

- (i) To review the Company's financial controls, internal controls, and risk management systems;
- (ii) To audit the accounting policies and practices adopted by the Company for its preparation of financial statements;
- (iii) To monitor the preparation of regular financial reports, including interim financial reports and annual financial reports, and audit relevant information disclosure in regular financial reports, financial results and other announcements;

- (iv) To evaluate the effectiveness of the internal control, risk management framework and the internal audit function, to discuss with the management regarding the scope and quality of the risk management and internal control system, and to monitor the management's performance of its duties, and to ensure the effectiveness of the risk management and internal control system, including whether the following are sufficient or meet the requirements: the allocation of resources required, qualifications and experience of accounting and financial reporting staff, and the training program and budget for relevant employees;
- (v) To review and examine, on its own initiative or at the request of the Board, the results of internal investigation and response of the management with respect to any suspected dishonesty or non-compliance, deficiency of risk management and internal control or suspected violation of laws and regulations;
- (vi) To evaluate and monitor the work scope, implementation effectiveness and results of functions regarding internal audit, to ensure the mutual coordination between internal and external auditors, and to ensure that the internal audit function obtains sufficient resources and has an appropriate position within the Group;
- (vii) To evaluate the financial and accounting policies and practices of the Group;
- (viii) To discuss with external auditors about any suggestions arising from audit works; to review the explanatory statement of the audit proposed by auditor to the management; to check and examine any major questions regarding the accounting record, financial accounts or regulatory system proposed by the accounting firm to the management, the feedback of the management or other correspondence documents, and to ensure that the independent accountant(s) and the management could communicate effectively;
- (ix) To ensure that the Board timely responds to the matters raised by external auditors in the explanatory statement of the audit;
- (x) To review the internal control process implemented by the management and to ensure that the preparation of financial statement(s) complies with the relevant accounting standards and regulatory requirements, and shall be reviewed and approved by the management;
- (xi) To review the Company's internal whistleblowing mechanism for matters concerning financial reporting, internal control or other potential violations; and to ensure that effective anonymous reporting channels are established, and that the Company conducts independent and fair investigations and takes appropriate actions regarding such matters;
- (xii) To report to the Board regarding the matters concerning the provisions of the Corporate Governance Code; and
- (xiii) To take into consideration such other topics as proposed by the Board.

Article 14 The Audit Committee shall review and supervise the appointment of and works performed by the accounting firm:

- (i) The Audit Committee shall consult with the accounting firm to confirm the arrangement regarding the schedule of the audit work on the financial report for the current year; shall procure the accounting firm to submit the audit report within the agreed timeframe and shall record the manner, frequency and results of such supervision in form of written opinions, with signature of the party/parties in charge for confirmation;
- (ii) To conduct annual review regarding the performance of the accounting firm, to submit to the Board the summarized report of the accounting firm on its audit work for the Company for the current year, to submit to the general meeting the proposals regarding the appointment, re-appointment and dismissal of the accounting firm for the coming year and the audit service fees thereof, to approve the remuneration and appointment terms regarding the independent accountant(s), and to deal with any issues regarding the resignation or dismissal of such accountant(s);
- (iii) To review the qualifications of the accounting firm (including the background and experience of the partners and auditing personnel), its independence and objectiveness, to assess and investigate whether the auditing procedures of the independent accountant are effective, and to ensure that the regular replacement of its managing partner(s) is in compliance with the relevant laws and regulations and the provisions of the listing rules of the place where the Company is listed;
- (iv) In accordance with the changes made to the existing laws and regulations and other regulatory requirements and prior to the commencement of the audit work, to discuss with the independent accountant(s) and review the nature of the audit, scope and methods of audit proposed by the independent accountant(s), and the relevant accountability of declaration, to evaluate whether the content and procedures of its work are objective and effective, and to pre-approve such audit service;
- (v) To formulate and implement the policy regarding the non-audit service provided by the accounting firm, to ensure that such non-audit service shall not affect its independence or objectiveness, to propose to the Board the suggestion for improvement or steps for adoption with respect to the matters which may affect the non-audit service provided by the accounting firm, and to audit and approve the non-audit service provided by the accounting firm to the Company and the relevant fee of such service;
- (vi) To discuss with the independent accountant(s) about the matters that both parties believe they shall separately discuss, and to guarantee that the independent accountant(s) shall have clear communication channel with the Audit Committee when required;
- (vii) To obtain the report from the accounting firm describing the Company's internal control quality and the material defects and insufficiency that may exist each year;

- (viii) To act as the major representative and supervise the relationship between the Company and the independent accountant(s);
- (ix) To audit the policy regarding employees and former employees of the accounting firm hired by the Company and to monitor the implementation of the policy.

Article 15 The Audit Committee shall establish relevant procedures and deal with the complaints as follows:

- (i) To receive, reserve and deal with complaints related to accounting, internal accounting control or audit matters as being informed by Company;
- (ii) To receive and deal with complaints of accounting or audit matters or anonymous reports and to guarantee its confidentiality;
- (iii) To assess the arrangement to let employees raise concerns confidentially about the financial reporting, internal control or other matters which may be under inappropriate circumstances. The committee shall ensure that the Company makes appropriate arrangement to fairly and independently investigate the relevant matters and to adopt appropriate follow-up actions.

Article 16 When exercising its functions and powers, the Audit Committee is entitled to engage independent accountant(s) or other advisor(s) (external advisor(s)) for provision of consultancy service to the committee.

The Company shall be liable for such reasonable fees incurred by the engagement of external advisor(s) by the Audit Committee when performing its job duties.

Article 17 The decision made and opinions formed by the Audit Committee shall be submitted to the Board in written form, and the following matters shall be reported to the Board on a regular basis:

- (i) Important matters that can help the Board understand the Company's financial status and business operation in a timely manner;
- (ii) Self-appraisal of members of the Audit Committee and the performance of job duties of the committee as a whole.

CHAPTER 5 SUPPLEMENTARY PROVISIONS

Article 18 In the rules, the meaning of "more than" includes the underlying number, the meaning of "exceeding" shall not include the underlying number, and "day(s)" refers to business day(s). Unless otherwise stated, technical terms used herein shall have the same meanings as they appear in the Articles of Association.

Article 19 The rules shall come into effect from the date when it is considered and passed by the Board.

Article 20 The rules shall be interpreted by the Board.

Important Note: The English version is for reference only. Should there be any inconsistency between the English and Chinese versions, the latter shall prevail.