

TIANNENG POWER INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Summary of terms of reference of the Audit Committee

The Audit Committee

The board of directors (the “**Board**”) of **TIANNENG POWER INTERNATIONAL LIMITED** (the “**Company**”) established a committee of the Board known as the Audit Committee (the “**Audit Committee**”), a summary of its constitution and particular duties is set out below:-

(1) Membership

The members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company and the Committee shall consist of not less than three members, at least one of whom shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). A quorum of a meeting of the Committee shall be two members.

The majority of the Audit Committee must be independent non-executive director of the Company.

The Committee must be chaired by an independent non-executive director of the Company.

(2) Attendance at meetings

The chief financial officer and the head of internal audit (if any) of the Company and a representative of the external auditors of the Company (the “**Auditors**”) shall attend meetings of the Audit Committee. Other members of the Board shall also have the right of attendance. The other members said right of attendance, however, is subject to the requirement that the Committee shall meet at least once a year with the Auditors without any executive Board members present at the meeting.

The Company Secretary of the Company shall be the secretary of the Audit Committee and shall be responsible to record the minutes of meetings of the Audit Committee.

(3) Frequency of meetings

Meetings of the Audit Committee shall be held not less than twice a year. The Auditors may also request a meeting with the Audit Committee if they consider that one is necessary.

(4) Authority

The Audit Committee is authorised by the Board to investigate any activity within terms of reference. It is authorised to seek any information it required from any employee of the Company and its subsidiaries (together, the “**Group**”) and all employees of the Group are directed to co-operate with any request made by the Committee.

The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of such advisers with relevant experience and expertise at any meetings of the Audit Committee if it considers this necessary.

(5) Duties

The duties of the Audit Committee shall include, but shall not be limited to the following:-

- (a) to consider the appointment of the Auditor, the audit fee, and any questions of resignation or dismissal of the Auditor;
- (b) to discuss with the Auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (c) to review the interim and annual financial statements before submission to the Board, focusing particularly on:

- (i) any changes in accounting policies and practices of the Group;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with Stock Exchange and legal requirements;
- (d) to discuss problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss (in the absence of management where necessary);
- (e) to review the Auditor's management letter and management's response;
- (f) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (g) (where an internal audit function exists) to review the internal audit programme, ensure co-ordination between the internal and the Auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (h) to consider the major findings of internal investigations and management's response; and
- (i) to consider other topics, as defined by the Board.

(6) Reporting procedures

The secretary of the Audit Committee shall circulate the minutes of the meetings of the Audit Committee to all members of the Board.

Note: For details of the terms of reference of the audit committee, please refer to "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants in February 2002.