Luzhou Xinglu Water (Group) Co., Ltd.*

瀘州市興瀘水務(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: 2281)

Terms of Reference of the Audit Committee

1 Responsibilities

The audit committee of Luzhou Xinglu Water (Group) Co., Ltd. (the "**Company**") (the "**Committee**") is established pursuant to a resolution passed by the board of directors of the Company (the "**Board**") with the following responsibilities:

1.1 to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial and other reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "**Group**"), and as to the adequacy of the external and internal audits;

1.2 to assure that appropriate accounting principles and reporting practices are followed;

1.3 to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the authorized independent auditors (the "**External Auditors**"), and to approve the remuneration and terms of engagement of the External Auditors, and any questions of its resignation or dismissal;

1.4 to make recommendations to the Board regarding the appointment or dismissal of the chief financial officer of the Company;

1.5 to serve as a focal point for communication between other directors, the External Auditors and any person responsible for internal audit function (the "**IA People**") as regards their duties relating to financial and other reporting, internal controls, external and the IA People and such other matters as the Board determines from time to time;

1.6 to review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the External Auditors the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm is involved. Procedures to review and monitor the independence of the External Auditors may include:

1.6.1 consider all relationships between the Group and the External Auditors (including non-audit services);

* *For identification purposes only*

1.6.2 obtain from the External Auditors annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current regulations of rotation of audit partners and staff; and

1.6.3 meet with the External Auditors, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the External Auditors may wish to raise;

1.7 to develop and implement policy on engaging the External Auditors to supply non-audit services. For the purpose of this clause, "**External Auditors**" include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters where action or improvement is needed and making recommendations as to the steps to be taken. The Committee should ensure that the External Auditors' provision of non-audit services does not impair its independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee may wish to consider:

1.7.1 whether the skills and experience of the External Auditors make it a suitable supplier of non-audit services;

1.7.2 whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the External Auditors provide non-audit services;

1.7.3 the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the External Auditors; and

1.7.4 criteria for compensation of the External Auditors;

1.8 to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports (including Directors' Report, Chairman's Statement and management discussion and analysis), and to review significant financial reporting judgments contained in them. In reviewing these statements and reports before submission to the Board, the Committee should focus particularly on:

1.8.1 any changes in accounting policies and practices;

1.8.2 major judgmental areas;

1.8.3 significant adjustments resulting from the audit;

1.8.4 the going concern assumptions and any qualifications;

1.8.5 compliance with accounting and auditing standards;

1.8.6 compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and legal requirements in relation to financial reporting; and

1.8.7 reviewing the fairness of connected transactions and making disclosures in accordance with the Listing Rules and accounting standards;

1.9 regarding the item 1.8 above:

1.9.1 members of the Committee should liaise with the Board and senior management of the Company and the Committee must meet, at least twice a year, with the External Auditors; and

1.9.2 the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for accounting and financial reporting function, the compliance officer of the Company or External Auditors;

1.10 to review audit and control related corporate representations made to External Auditors, IA People and the shareholders of the Company;

1.11 to review with External Auditors and IA People, the Group's management, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls) and any statement by the Board to be included in the annual reports prior to endorsement by the Board;

1.12 to review the Company's financial controls, and unless expressly addressed by a separate risk committee under the Board, or by the Board itself, to review the Company's risk management and internal control systems;

1.13 to discuss the risk management and internal control systems with management to ensure that management has performed its duties to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financing reporting function;

1.14 to 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;

1.15 where an internal audit functions exists, to ensure co-ordination between the IA People and External Auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

1.16 to review the Group's financial and accounting policies and practices;

1.17 to review the External Auditors' management letter on the audit, any material queries raised by the External Auditors to management about accounting records, financial accounts or system of control and management's response;

1.18 to ensure that the Board will provide a timely response to the issues raised in the External Auditors' management letter on the audit;

1.19 to report to the Board on the matters set out in Code Provision C.3 of Appendix C1 (Corporate Governance Code and Corporate Governance Report) to the Listing Rules. The Committee shall be accountable to the Board, and submit proposals to the Board pursuant to the provisions of the Company's articles of association;

1.20 to consider agreeing with the Board the Company's policies on hiring employees or former employees of the External Auditors and monitoring the application of these policies. The Committee should then be in a position to consider whether there has been or appears to be any impairment of the External Auditors' judgment or independence for the audit;

1.21 where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the External Auditors, the Committee should include in the Corporate Governance Report a statement explaining Committee's recommendation and the reasons why the Board has taken a different view;

1.22 to review the following arrangements established by the Company: employees of the Company may confidentially raise concerns about potential improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place to enable the Group to conduct fair and independent investigations into such matters and take appropriate action;

1.23 to act as the key representative body between the Group and the External Auditors, overseeing the relationship between the two parties;

1.24 to attend annual general meetings of the Company, and to be available to answer questions at such annual general meetings. (Note: the chairman of the Committee shall attend annual general meetings of the Company; and in the absence of the chairman of the Committee, another member of the Committee or failing this, the chairman of the Committee's duly appointed delegate, shall attend); and

1.25 to consider other topics as defined by the Board.

2 Membership

2.1 Members of the Committee shall consist of not less than three members and shall be appointed by the Board from amongst the directors of the Company. All of the members shall be non-executive directors and at least one of the Committee members shall be independent non-executive director with appropriate qualifications or accounting or related financial management expertise and over 5 years of accounting experience as required under Rules 3.10(2) and 3.21 of the Listing Rules and Article 42 of the Guidelines on Corporate Governance of Securities Companies. Most of the members shall be the independent non-executive directors of the Company.

2.2 The chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director of the Company.

2.3 A former partner, principal, shareholder, or professional employee of the Company's existing External Auditors is prohibited from acting as a Committee member for a period of one year as calculated under the Listing Rules and applicable auditor independence rules.

2.4 The secretary of the Company shall act as the secretary of the Committee.

2.5 The constitution of the Committee shall comply with the requirements of the Listing Rules as amended from time to time.

3 Frequency and proceedings of meetings

3.1 The Committee should meet at least one per quarter. An extraordinary meeting may be convened upon the proposal of two or more members, or when deemed necessary by the chairman of the Committee.

3.2 The Committee shall meet with the External Auditors at least twice a year. At least one of the said meetings should be held in the absence of management.

3.3 Notice of Meeting

3.3.1 Unless otherwise agreed by all the Committee members, a meeting shall be convened by at least fourteen days' prior notice.

3.3.2 A Committee member may at any time summon a Committee meeting.

3.3.3 Notice shall be given to each Committee member in person orally or in writing or by telephone or by facsimile transmission or email at numbers or addresses from time to time notified to the secretary of the Committee by such Committee member or in such other manner as the Committee members may from time to time determine.

3.3.4 Any notice given orally shall be followed by confirmation in writing before the meeting.

3.3.5 Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the Committee members for the purposes of the meeting.

3.4 The quorum of the Committee meeting shall be 2/3 or more of the members of the Committee. Resolutions adopted by the Committee shall be passed only with the approval of a majority of the members present at the meeting.

3.5 The Committee may invite non-member directors, supervisors, senior management personnel, and heads of relevant departments to attend the meetings as necessary.

3.6 The procedures for convening Committee meetings, the voting methods, and the resolutions adopted at meetings must comply with relevant laws and regulations, the Listing Rules, Company's articles of association and these terms of reference.

3.7 Members attending the meetings shall be bound by confidentiality obligations regarding the matters discussed and shall not disclose any related information to external parties without authorization.

4 Alternate Committee members

Notwithstanding the matters as set out in clause 1.24 above, a Committee member may not appoint any alternate.

5 Authorities of the Committee

5.1 The Committee has the authority delegated to it from the Board to deal with the matters set out in clause 1 above. The Board shall seek advice from the Committee prior to making any resolutions on matters with regard to the responsibilities of the Committee.

5.2 The Committee should be provided with sufficient resources to perform its duties.

5.3 The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary at the expense of the Company.

5.4 The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

6 Minutes of meetings

Full minutes of Committee meeting shall be kept by the secretary of the Committee and should be open for inspection at any reasonable time on reasonable notice by any director of the Company. Minutes of meetings should contain sufficiently detailed records of matters considered and decisions reached by the Board, including any concerns raised or objections expressed by directors. The secretary of the Committee shall circulate the draft and final versions of minutes of Committee meetings to all the Committee members within a reasonable time after the meeting concludes, with the draft for comments and the final version for record-keeping purposes.

7 Written resolutions

Written resolutions may be passed by all Committee members in writing. This provision is without prejudice to any requirement under the Listing Rules regarding the holding of Board or Committee meetings.

8 Reporting procedures

The Committee should report to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

9 Continuing application of the articles of association of the Company

The articles of association of the Company regulating the meetings and proceedings of the Board so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

10 Powers of the Board

The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including Appendix C1 (Corporate Governance Code and Corporate Governance Report) to the Listing Rules), amend, supplement and revoke these terms of reference and any resolution passed by the Committee, provided that such amendments, supplements, and revocation shall not affect the validity of any resolution passed or action taken by the Committee prior to such action.

11 Language

If there is any inconsistency between the English and Chinese versions of these terms of reference, the Chinese version shall prevail.