



Chongqing Machinery & Electric Co., Ltd.*
重慶機電股份有限公司

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

-(Stock Code: 02722)

Terms of Reference of the Remuneration Committee

Passed at the 2007 second extraordinary meeting of the first session of the Board on 16 August 2007

Amended for the first time at the 2011 twelfth extraordinary meeting of the second session of the Board on 25 November 2011

Amended for the second time at the 2012 fourth extraordinary meeting of the second session of the Board on 11 July 2012

Article 1 Definitions

For the purpose of these terms of reference (the “**Terms of Reference**”):

“**Board**” means the board of Directors of the Company.

“**Company**” means Chongqing Machinery & Electric Co., Ltd.*

“Secretary of the Board” means the Secretary of the Board of the Company.

“Director(s)” means members of the Board.

“ Group” means the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its current subsidiaries and associated companies, the current subsidiaries and associated companies of the Company or the businesses operated by its current subsidiaries and associated companies or (as the case may be) its predecessor.

“Listing Rules” or “Rules” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time.

“Articles of Association” means the Articles of Association of Chongqing Machinery & Electric Co., Ltd. *, as amended from time to time.

“Remuneration Committee” means the remuneration committee established by the Board according to the resolution which was approved under the Terms of Reference.

“Senior Management” means any other administrative personnel of the Group including Directors, chairman, chief executive, president, vice president and senior management of the Company appointed from time to time by the Board

“Shareholder(s)” means the person(s) or corporation(s) who holds shares of the Company.

"Remuneration", in the context of the Terms of Reference, include (but not limited to) all salaries, bonuses, allowances, benefits (in cash or in kind), pension arrangements, reimbursements, compensations (including

any compensation payable due to loss or termination of employment or appointment), incentives and share options.

Article 2 Constitution

The Board hereby resolves to establish a committee of the Board to be known as the Remuneration Committee.

Article 3 Composition and Membership of the Remuneration Committee

The Remuneration Committee shall comprise at least three non-executive Directors, and a chairman who should be an independent non-executive Director. The Board may adjust the size of the Remuneration Committee according to the needs of the Company, provided that adjustment is in compliance with relevant regulatory requirements and the Listing Rules. The majority of the Remuneration Committee should be independent non-executive Directors.

All members of the Remuneration Committee shall disclose the following to the committee:

- a. all economic benefits (other than those to be gained as Shareholders) relating to any matter to be determined by the committee; or

- b. all potential conflicts of interest arising from their positions.

Any such member shall abstain from voting on the resolutions relating to such interest at the meeting of Remuneration Committee and abstain from attending the meetings convened for the purpose of discussing such resolutions, and resign from the committee (as required by the Board).

Article 4 Term of Office

The term of office of the Remuneration Committee shall be the same as that of the Board, and its members may be eligible for re-election and reappointment upon the expiry of their terms of office. Any member who, during his term of office, ceases to be a Director shall automatically lose his membership on the Remuneration Committee and a replacement shall be appointed by the Board to fill the vacancy in accordance with the Articles of Association and the Listing Rules.

In the event that a member submits his resignation which is then approved by more than half of the Board, or no longer serves as a non-executive Director, the Board may decide to terminate his term of office in advance.

Any change of the committee members shall be subject to the approval of a general meeting in accordance with the procedure for change of directors stipulated in the Articles of Association as well as announcement as required by regulatory requirements and the Listing Rules.

Article 5 Resignation of Members

(1) Should any member resign during his term of office, such member shall submit to the Board through the Secretary to the Board a resignation letter one month in advance, in which detailed explanations should be given.

(2) In the event that the number of the Remuneration Committee is less than the quorum required or the minimum requirements of the Terms of Reference due to the resignation of member(s), such resignation shall not take effect until the replacement member(s) elected by the Company takes office.

(3) For any member who automatically loses his membership due to his resignation as a non-executive Director, there is no need to apply the resignation procedure for members of the Remuneration Committee. Such member shall automatically lose his membership on the date when he

officially resigns from his position as an independent non-executive Director in accordance with the procedure for resignation of non-executive Directors of the Company. In the event that such automatic loss of membership may result in the number of the Remuneration Committee falling below the quorum or the minimum requirements hereof, paragraph (2) of this Article shall apply as to when such loss of membership shall take effect.

Article 6 Meetings

The Remuneration Committee should hold at least one regular meeting every year, and extraordinary meetings if necessary.

A Remuneration Committee meeting may not be held unless more than half of the members are present. It may be held by telephone conferencing or video conferencing or other means.

Article 7 Meeting of the Committee by way of Written Proposals

The Remuneration Committee may adopt written proposals and pass resolutions by way of written resolutions instead of holding a physical meeting. A written resolution

shall be effective when the meeting materials are delivered to all members and the number of members who sign their consent reach the quorum for passing such resolution.

Article 8 Convening and Chairing of Meetings

The meetings of the Remuneration Committee shall be convened by its chairman with assistance from the Secretary to the Board who may authorize the office of the Board to help deal with the convening, preparation and relevant affairs of the meeting.

Notice of a Remuneration Committee meeting should be delivered to every member at least ten days in advance. The meeting agenda and relevant documents should be delivered to every member at least five days in advance.

The meeting shall be presided over by the chairman.

Article 9 Resolutions of Meetings

Any resolution of a Remuneration Committee meeting shall be subject to the approval of two thirds or more of all members, with each member having one vote.

Voting at a Remuneration Committee meeting may be taken by poll or show of hands. Voting at an extraordinary meeting of the Remuneration Committee may be taken via telecommunications.

Any resolution of a Remuneration Committee meeting shall be in writing form and signed by each member present.

Article 10 Meeting Minutes

The complete and true meeting minutes shall be kept for each Remuneration Committee meeting.

The office of the Board shall be in charge of taking the minutes of the Remuneration Committee meetings. The draft versions of the minutes shall be delivered to all members for review and confirmation within a week from the close of the meeting. The original minutes shall be kept by the Secretary to the Board.

Without prejudice to the general duties of the Remuneration Committee specified by the Terms of Reference, the Remuneration Committee shall report to the Board all its decisions and proposals and inform the Board of its decisions and proposals on a regular basis, unless prohibited by laws or regulatory restrictions.

Article 11 Non-voting Attendance

When it deems necessary, the Remuneration Committee may invite the Company's Management and other Directors to attend its meeting as observers. Such attendees have no voting rights.

Article 12 Annual General Meetings

The chairman of the Remuneration Committee shall attend the annual general meeting of the Company, and address questions raised by Shareholders regarding any matters of the committee.

Article 13 Primary Duties of the Remuneration Committee

The primary duties of the Remuneration Committee include:

(1) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(2) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors.

The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, and employment conditions elsewhere in the Company;

(3) to review the remuneration set by it by reference to corporate goals and objectives resolved by the Board from time to time;

(4) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(5) to review and approve compensation arrangements relating to dismissal or removal of Directors for

misconduct to ensure that such arrangements are formulated in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(6) to ensure that no director or any of his associates is involved in deciding his own remuneration;

(7) to supervise other matters authorized by the Board;

(8) to supervise other matters authorized under regulatory provisions;

(9) to assess the performance of the committee on an annual basis;

(10) to seek independent professional advice as required, and the relevant costs incurred should be the responsibility of the Company.

The Remuneration Committee should make available its terms of reference, explaining its roles and the authority delegated to it by the Board.

The Remuneration Committee should be provided with sufficient resources to discharge its duties.

The Remuneration Committee has the right to request the Management of the Company to provide necessary documents and materials for its performance of duties or address its concerns.

Article 14 Obligations of the Committee Members

The obligations of Remuneration Committee members shall, as required by regulatory requirements and provisions hereof, include but not limited to the following:

(1) to faithfully perform their duties, reasonably safeguard the best interests of the Company and fairly protect the interests of all Shareholders, especially of minority Shareholders;

(2) to attend meetings of the Remuneration Committee in person and on time, or, when failing to attend, appoint another member to attend on his behalf by power of attorney which shall state the scope of authorization;

(3) to carefully review and consider all documents and topics presented to the committee;

(4) to maintain timely and effective communications with the Board and Management of the Company;

(5) to ensure the time and energy devoted to the work of the Remuneration Committee. The Remuneration Committee members shall not take the same position in more than three domestic or overseas listed companies, unless otherwise approved by the Board.

Article 15 Remuneration of the Committee Members

The remuneration of the members of the Remuneration Committee shall be determined and approved by the Board. Payment may be made in the form of cash, shares or options. The members shall not receive, whether directly or indirectly, any consulting fees and advisory fees from the Company other than the following:

(1) remuneration received as a Director (including any allowances and other benefits paid to all Directors) or as an employee representative.

(2) remuneration for a position in any committee of the Board.

(3) pension or other deferred compensation for the services that have been rendered as a Director (provided that such compensation is not contingent upon the provision of any other services by such Director in the future).

Article 16 Funds of the Remuneration Committee

The Remuneration Committee shall have funds and other resources necessary for the performance of its duties.

Article 17 Availability of the Terms of Reference

The Terms of Reference shall be made available upon request and published on the website of the Company so as to expound its duties and powers authorized by the Board.

Article 18 Amendment to and Termination of the Terms of Reference

Any amendment hereto or the termination hereof is subject to the approval of the Board through resolutions.

(If there is any inconsistency or ambiguity between the English and Chinese versions of the Terms of Reference, the Chinese version shall prevail.)