

Kunming Dianchi Water Treatment Co., Ltd. Implementation Rules for Remuneration and Appraisal Committee of the Board

Chapter I General Provisions

Article 1 In order to establish a sound assessment and remuneration management system for the Directors (Non-independent Directors) and senior management of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) and improve the corporate governance structure, the Company established the Remuneration and Appraisal Committee (the “**Remuneration and Appraisal Committee**”) of the Board and formulated the implementation rules for Remuneration and Appraisal Committee in accordance with the Company Law of the People’s Republic of China, Code of Corporate Governance for Listed Companies, the Articles of Association of the Company, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) and other relevant provisions.

Article 2 The Remuneration and Appraisal Committee is a special working committee established by the Board and shall be accountable to the Board; which is mainly responsible for formulating the assessment criteria and conducting assessment of the Directors and senior management of the Company; formulating and reviewing the remuneration policies and plan of the Directors and senior management of the Company.

Article 3 Directors stated in the Implementation Rules refer to the salaried chairman and the Directors; the senior management refers to those appointed by the Board including general manager, deputy general manager, secretary to the Board, financial controller and other senior management submitted by the general manager and appointed by the Board.

Chapter II Composition

Article 4 The Remuneration and Appraisal Committee shall comprise three Directors, the majority of whom shall be independent Directors.

Article 5 Members of the Remuneration and Appraisal Committee shall be nominated by the chairman of the Board, more than one half of the independent Directors or one-third of all Directors and shall be elected by the Board.

- Article 6** The Remuneration and Appraisal Committee shall have one chairman, who shall be an independent Director and shall preside over the work of the Remuneration and Appraisal Committee. The chairman of the Committee shall be elected from the members and be submitted to the Board for approval.
- Article 7** Members of the Remuneration and Appraisal Committee shall have a term of office consistent with that of the Board. The term of office of a member is renewable upon re-election. If a member no longer assumes the position of Director of the Company, he/she shall automatically lose the qualification as a member of the Committee and shall be replaced by other members being appointed by the Committee in accordance with Articles 4 to 6 above.
- Article 8** A working team is organized by the Remuneration and Appraisal Committee, mainly responsible for providing relative information of operation of the Company and the personnel who will be appraised, preparing the meeting and implementing the relative resolutions approved by the Remuneration and Appraisal Committee.

Chapter III Terms of Reference

- Article 9** The major terms of reference of the Remuneration and Appraisal Committee are:
- (1) to formulate remuneration plans or proposals according to the major scope of work, duties, importance of Directors and senior management as well as the remuneration level of other relevant positions of other relevant enterprises, policies and structures; and make recommendations to the Board;
 - (2) to formulate remuneration plans, policies or proposals mainly include but not limited to performance assessment criteria, procedure and major evaluation systems, major incentives and penalties plans and systems; and make recommendations to the Board;
 - (3) to review the performance of the Directors(Non-independent directors) and senior management of the Company and conduct annual performance appraisal;

- (4) to review and supervise the performance of the remuneration system of the Company with reference to the Board's corporate goals and objectives and approve the remuneration proposals for the senior management; to determine the specific remuneration packages of all executive Directors and senior management, include but not limited to basic salary, stock option, benefits in kind, pension rights, bonus and compensation payments (including any compensation payable for loss or termination of their office or appointment);
- (5) to make recommendations to the Board on the remuneration packages of individual executive directors and Senior management;
- (6) to make recommendations to the Board on the remuneration of non-executive directors;
- (7) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions in the Group (including the Company and other subsidiaries);
- (8) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and otherwise fair and not excessive;
- (9) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (10) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (11) other matters conferred by the Board.

Article 10 The Board is entitled to veto the remuneration plan which harms the interests of shareholders.

Article 11 The proposed remuneration plan of the Directors of the Company by the Remuneration and Appraisal Committee shall be reported to and approved by the Board, and submitted to shareholders' general meeting for consideration and approval before implementation. The remuneration distribution plan of the senior management shall be reported to the Board for approval before its implementation.

Chapter IV Decision-making Procedures

Article 12 The working team set up under the Remuneration and Appraisal Committee shall be responsible for performing the preliminary preparation works for the decision-making process of the Remuneration and Appraisal Committee and shall provide the following relevant information to the Company:

- (1) achievement results of the major financial targets and operation objectives of the Company;
- (2) the scope of work and the major responsibility and duties of each of the Company's senior management;
- (3) achievement in the targets set out in the working performance assessment system by the Directors and the senior management in their positions;
- (4) the achievement of the Directors and the senior management in respect of innovation and profit generation;
- (5) to provide the basis of the measurement and calculation for formulating the Company's remuneration distribution plan and method according to the operating results of the Company.

Article 13 Procedures for the assessment of the Directors and the senior management performed by the Remuneration and Appraisal Committee are as follows:

- (1) the Directors and the senior management of the Company shall report their work and deliver self-assessment report to the Remuneration and Appraisal Committee of the Board;
- (2) the Remuneration and Appraisal Committee conducts performance assessment of the Directors and the senior management according to the performance assessment criteria and procedures;
- (3) the Remuneration and Appraisal Committee proposes the amount of remuneration and award method for the Directors and the senior management based on the performance assessment results and remuneration distribution policy. After the proposal is approved by the Remuneration and Appraisal Committee, it shall be reported to the Board for consideration and approval.

Chapter V Rules of Procedures

- Article 14** The Remuneration and Appraisal Committee shall convene at least two meetings annually and notice shall be given to all members 7 days in advance. The meeting shall be presided over by the chairman of the Committee. In case that the chairman of the Committee is unable to attend the meeting, he/she shall authorize another member, who shall be an independent director, to preside over the meeting. In case of emergency where an interim meeting of the Audit Committee needs to be convened as soon as practicable, the notice of meeting may be given through telephone, fax or e-mail at any time, provided that an explanation shall be made by the convener at the meeting.
- Article 15** The meeting of the Remuneration and Appraisal Committee shall not be held unless over two-thirds of the members attend the meeting. Each member shall have one vote and the resolutions made by the meeting must be approved by over half of all members. The meeting of the Remuneration and Appraisal Committee is convened on the principle of site-meeting. If necessary, the meeting can be convened via video, phone, fax or e-mail so long as the members can be guaranteed to fully express their views. The meeting of the Remuneration and Appraisal Committee meeting may also be held both on-site and via other means.
- Article 16** Voting at the meeting of the Remuneration and Appraisal Committee shall be taken by a show of hands or by voting and a meeting may also be convened in the form of communication in case of emergency.
- Article 17** The Directors, supervisors and other senior management of the Company may be invited to attend meetings by the Remuneration and Appraisal Committee when necessary.
- Article 18** The Remuneration and Appraisal Committee may retain an intermediary institution to provide professional advice on its decision when necessary. The expenses incurred shall be borne by the Company.
- Article 19** In the event that the discussion at a meeting of the Remuneration and Appraisal Committee is related to a member of the committee, such member shall be absent from such discussion.
- Article 20** The convening procedure and voting method of the meeting of the Remuneration and Appraisal Committee and the remuneration policies and allocation plans passed at such meetings shall comply with the relevant laws, regulations, Articles of Association, Hong Kong Listing Rules and the Implementation Rules.

- Article 21** The Remuneration and Appraisal Committee shall keep minutes of its meetings. The minutes shall be signed by committee members attending the meeting and shall be kept by the secretary to the Board.
- Article 22** The resolutions passed and voting results of a meeting of the Remuneration and Appraisal Committee shall be submitted to the Board in writing.
- Article 23** All members of the committee present at the meeting shall keep confidential all matters discussed at the meeting and shall not disclose without approval.

Chapter VI Supplementary Provisions

- Article 24** The Implementation Rules shall be effective from the date of listing of our overseas listed foreign shares (H shares) on The Stock Exchange of Hong Kong Limited upon approval at a general meeting.
- Article 25** For any matters not covered by the Implementation Rules, they shall be executed in accordance with the relevant PRC laws and regulations, the Hong Kong Listing Rules and the Articles of Association. In the event that the Implementation Rules contravene any future PRC laws and regulations to be promulgated or the Articles of Association amended through valid procedure or the Hong Kong Listing Rules, then the relevant PRC laws and regulations, the Hong Kong Listing Rules, and the Articles of Association shall prevail and the Implementation Rules shall be revised immediately and then reported to the Board for consideration and approval.
- Article 26** The right to interpret the Implementation Rules shall reside in the Board.