



中國水務
CHINA WATER

CHINA WATER AFFAIRS GROUP LIMITED
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

中國水務集團有限公司 環境、社會及管治報告

報告
2020 ESG

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報告概況

REPORT OVERVIEW

詞彙

Glossary

“ $\text{Al}_2(\text{SO}_4)_3$ ”	Aluminium Sulfate	硫 酸 鋁
“BOD”	Biochemical Oxygen Demand	生 化 需 氧 量
“ ClO_2 ”	Chlorine Dioxide	二 氧 化 氯
“ CO_2 ”	Carbon Dioxide	二 氧 化 碳
“COD”	Chemical Oxygen Demand	化 學 需 氧 量
“GJ”	Gigajoule	吉 焦
“ H_2S ”	Hydrogen Sulfide	硫 化 氫
“km”	Kilometer	千 米 / 公 里
“ km^2 ”	Square kilometer	平 方 千 米 / 平 方 公 里
“kW·h”	Kilowatt-hour	千 瓦 時
“ m^3 ”	Cubic meter	立 方 米
“MWh”	Megawatt-hour	兆 瓦 時
“NaClO”	Sodium Hypochlorite	次 氯 酸 鈉
“NaOH”	Sodium Hydroxide	氫 氧 化 鈉
“ NH_3 ”	Ammonia	氨 氣
“ $\text{NH}_3\text{-N}$ ”	Ammonia Nitrogen	氨 氮
“PAC”	Polyaluminium Chloride	聚 合 氯 化 鋁
“SS”	Suspended Solids	懸 浮 物

核心價值觀

Core Values

以水為本 建善社會

Water-oriented,
Kindness to Society



管理層致辭

Management's Statement

Environmental pollution and climate change have now become threats to mankind as a whole, affecting our society, economies and ecological systems in every way. Scientists have come to a worldwide consensus that climate change is mainly caused by human activities, or more precisely, business operations. As a public utility provider, China Water Affairs Group Limited ("China Water" or the "Company"), together with its subsidiaries and associates (the "Group"), are well aware that current business activities will undoubtedly alter the directions of environmental and climate change and the future of mankind.

On a macro-level, our country has become one of the signatories to the Paris Agreement and introduces an eco-civilisation development concept of "lucid waters and lush mountains are invaluable assets", while the contradiction between environmental protection and business development, social responsibility and economic benefits have been increasingly prominent. Against such backdrop, China Water is riding the wave and taking the lead to steadfastly implement its core strategies of urban-rural water supply integration and integration of water supply and drainage while upholding its business philosophy of "Water-oriented, Kindness to Society", forming a mutually supportive multi-driver synergy between urban-rural water supply, dual water supply, sewage treatment and drainage management and maintenance. China Water is committed to creating an eco-friendly business portfolio that is well-recognised by the society and promote harmony between people and water.

Looking back at the past year, China Water has been "dedicated", "responsible", "kind" and "compassionate". We have incorporated the wisdom and spirit of water into our corporate management and corporate culture and devoted ourselves to the development of ecological civilisation and the well-being of the community and the people.

Dedicated – In April 2019, China Water invested HK\$1.2 billion to acquire 29.52% of the shares in Kangda International Environmental Company Limited ("Kangda International") (stock code: 06136.HK) and became the largest shareholder of Kangda International. As Kangda International is one of the leaders in the environmental protection industry in the PRC, the acquisition will consolidate China Water's sewage treatment business and facilitate its strategy of integration of water supply and drainage, which is a testament to its dedication to the noble end of environmental protection.

Responsible – In recent years, China Water has improved from a standardised management model to a refined model, and is moving towards green management. By incorporating its own business characteristics, China Water has started comprehensive green operation initiatives, setting practical development goals and proactively transforming itself into a green and sustainable growth model, which enable China Water to acknowledge its unshakable corporate responsibility in taking on the severe challenges of environmental pollution and climate change.

Kind – “The supreme good resembles water, which nourishes all things without trying to”. China Water provides its customer services with the kindness of water and extends its sincerity to countless families. In the past year, we continued to support the community and contribute to the society under our brand “China Water, Nourishing Thousands of Families with Love”. Meanwhile, we introduced advanced technology in our direct drinking water business to create a new model of healthy water consumption, demonstrating our core brand value of “kindness”.

Compassionate – At the beginning of the year, a pandemic has caught the whole country by surprise, disturbing our lifestyles and business operations to an unprecedented extent. As water is the most basic need of our lives, unlike other industries, China Water’s staff have to stay on duty to secure stable water supply, repair urban pipelines, help the construction of healthcare facilities and donate to the people in need. While everyone is seeking shelter from the pandemic, China Water’s staff have stepped up to take their responsibilities, revealing the brightest side of humanity and making them the second most compassionate heroes after healthcare staff.

Like sailing a boat downwind on calm and open water, China Water will seek stable progression and pursuit for opportunities amidst changes. We will focus on green operations and have our finger on the pulse of the times to become a leader in water values, with an aim to relentlessly pursuit for harmony between human and nature, development and environment, as well as modernisation and ecology.

Duan Chuan Liang
Chairman of the Board

企業發展概況

Overview of Corporate Development

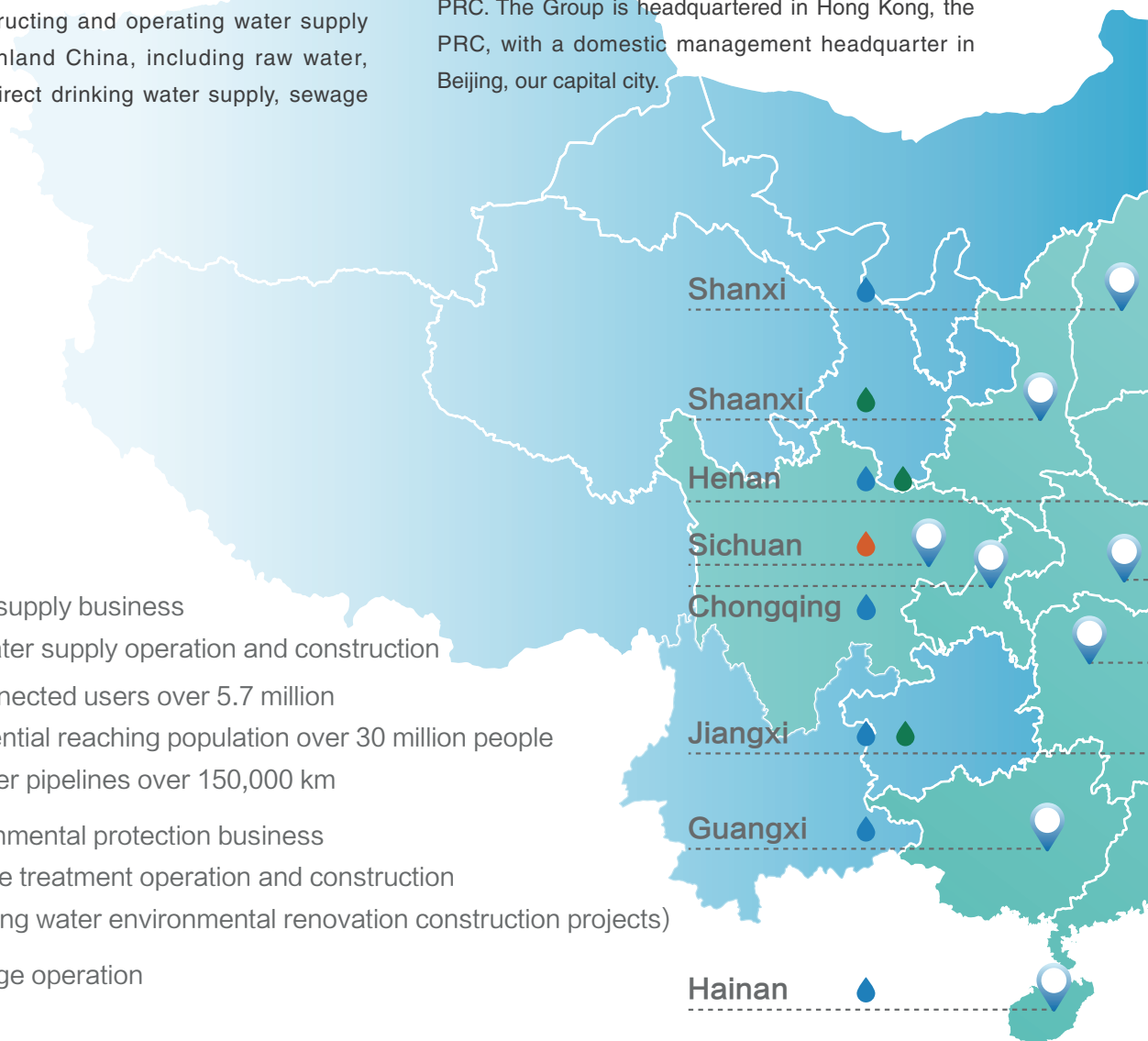
ABOUT CHINA WATER

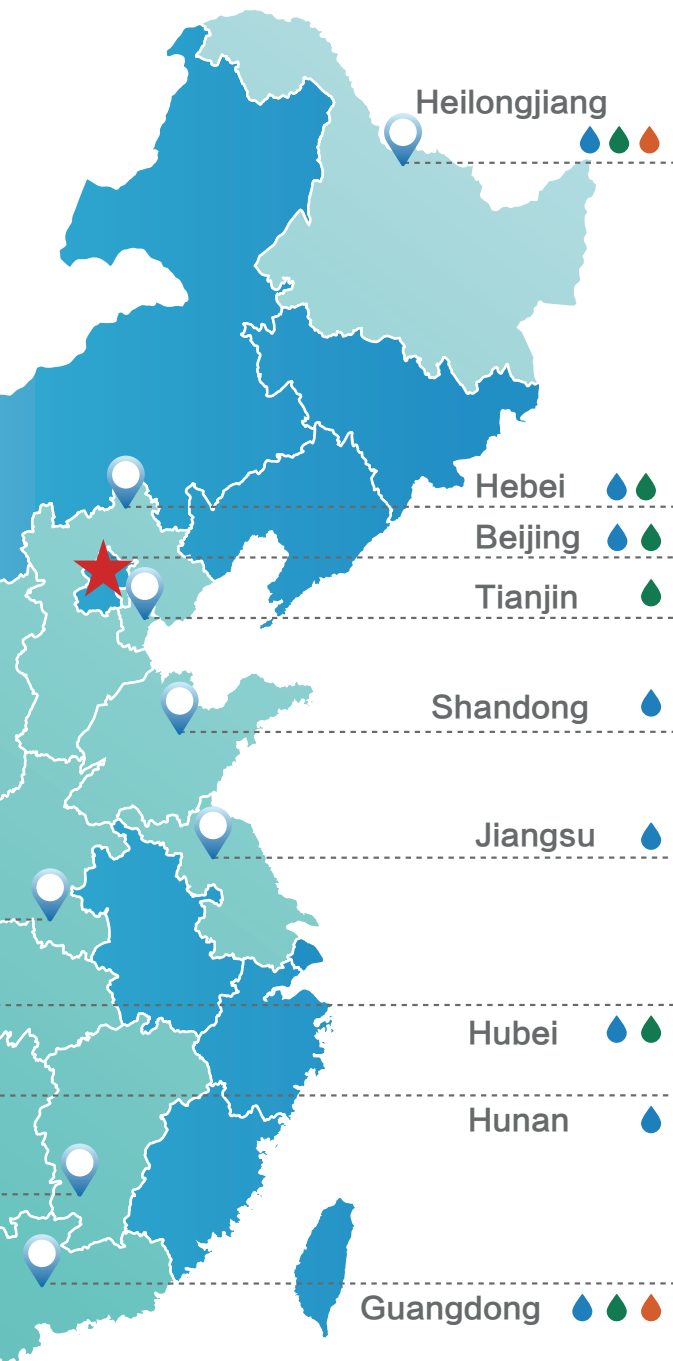
China Water Affairs Group Limited is a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 00855.HK) and its shares are tradable under the Shenzhen-Hong Kong Stock Connect.

Since 2003, the Group has been committed to investing, constructing and operating water supply projects in mainland China, including raw water, tap water and direct drinking water supply, sewage

treatment, drainage operation, comprehensive water environmental renovation and water-related construction. The Group has grown into a professional, international and market-oriented leader of integrated water operation, with its cross-region business covering 13 provinces, 3 municipalities and over 60 cities in the PRC. The Group is headquartered in Hong Kong, the PRC, with a domestic management headquarter in Beijing, our capital city.

-  Water supply business
 - City water supply operation and construction
 - Connected users over 5.7 million
 - Potential reaching population over 30 million people
 - Water pipelines over 150,000 km
-  Environmental protection business
 - Sewage treatment operation and construction (including water environmental renovation construction projects)
-  Drainage operation





SCALE OF THE GROUP

As of 31 March 2020, the Group had 170 water plants, with a total designed daily water supply capacity of 14.14 million m³; 19 sewage treatment plants, with a total designed daily sewage treatment capacity of 1.05 million m³; total length of water pipelines under operation and maintenance of over 150,000 km; 5.70 million users of the Group's water supply service (number of registered water metres), representing an increase of approximately 1.00 million users as compared to last year, comprising approximately 5.30 million domestic users and approximately 400,000 commercial and industrial users. The Group had a total of 9,356 employees, representing an increase of 1,046 employees as compared to last year.

MAJOR OPERATING ACHIEVEMENTS

During the reporting period:

Acquisition of water projects

HK\$ **410** million

Acquisition of 29.52% of equity interests in Kangda International Environmental Company Limited

HK\$ **1.20** billion

New large-scale water construction and upgrade projects

Total investment amount

HK\$ **3.11** billion

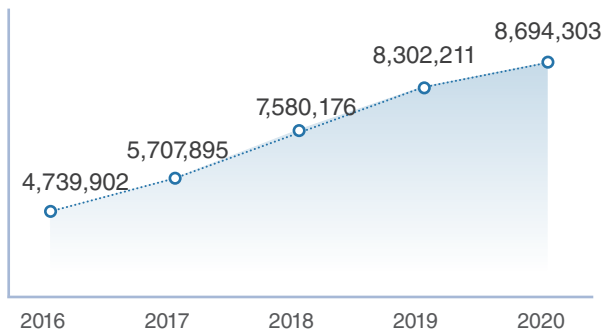
Total financing amount

HK\$ **6.07** billion

Management indicators

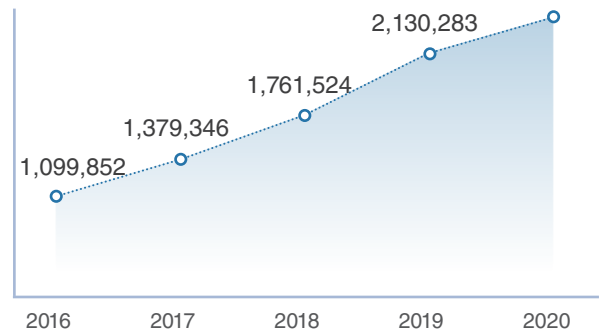
Revenue

Unit: HK\$'000



Profit

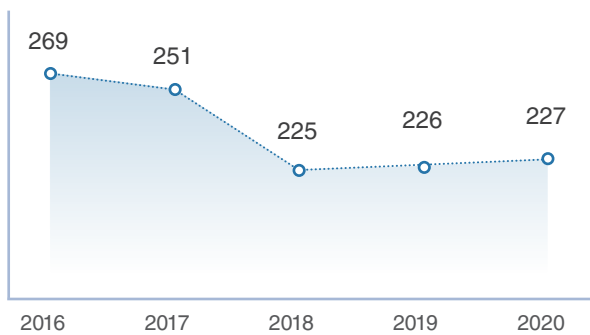
Unit: HK\$'000



Power consumption per unit water supply

Unit: kW-h/'000 m³

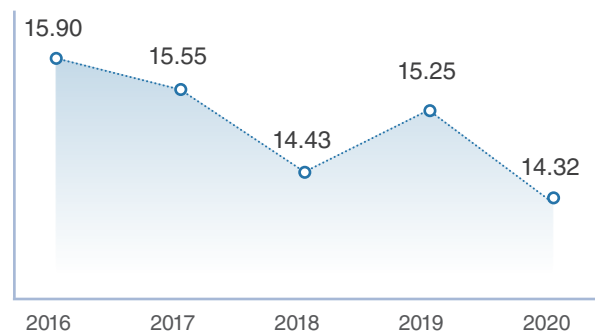
Industry average 337



Leakage ratio

Unit: %

Industry average 22.01%



Source: The industry average is extracted from Urban Water Supply Statistic Yearbook (2018) of China Urban Water Association

HONORS

- 🏆 China Water has been awarded "2019 Best Infrastructure and Public Utilities Stock Company" at the Golden Hong Kong Stocks Awards.
- 🏆 Our subsidiary Jingzhou Water Affairs Group Co., Ltd. has been awarded as the National Advanced Unit in Innovation of Water Supply and Sewage, National Corporate Culture Model and National Market Quality Credit AA Customer Satisfaction in Service 2019.
- 🏆 Our subsidiary Huaihua Silver Dragon Water Affairs Co., Ltd. has been awarded as 2019 Advanced Unit in Water Supply of Hunan Province.
- 🏆 Our subsidiary Wuzhi Guoyuan Water Affairs Co., Ltd. has been awarded as Advanced Unit in Hygiene of Henan Province.
- 🏆 Our subsidiary Wuhan Xinzhou District Changyuan Water Supply Co., Ltd. has been awarded as Wuhan Harmonious Enterprise.



利益相關方參與







Stakeholder Engagement

Stakeholder engagement is an integral part of the corporate governance of China Water. The Group's stakeholders mainly include our shareholders, investors, creditors, the government, our customers, consumers, employees, suppliers and the local communities. Adhering to our operating philosophy

of "Water-oriented, Kindness to Society", the Group has established open, transparent and efficient communication channels with its stakeholders to promptly respond to their demands and to understand their expectations and suggestions on the sustainable development of the Group.

The Group defines its stakeholders based on the following four principles:

Responsibility:	Decision-making:	Dependence:	Impact:
Stakeholders associated with the Group in terms of policies, laws, regulations, contracts, financials and operation;	Stakeholders who have decision-making authority over the Group;	Stakeholders who rely to a significant extent on the Group's operation and governance;	Stakeholders in the vicinity of the Group's business who are affected by our operation.

Stakeholders	Means of engagement and communication	Concerned Issues	Frequency or schedule
 Shareholders, investors, creditors	General meeting	Economic performance	Regularly/as and when necessary
	Results announcement meeting	Supply chain management	Annually/biannually
	Annual/interim report	Organisational structure	Annually/biannually
	Press release/announcement	Governance measures	Regularly/as and when necessary
	Roadshow		Regularly/as and when necessary
	Investor conference		As and when necessary
	Site visit		As and when necessary
 The government	Correspondence	Operational safety	As and when necessary
	Regulatory inspection	Product quality and service	Regularly/as and when necessary
	Site visit	Compliant operation	As and when necessary
	Themed conference	Emissions	As and when necessary
	Seminar	Energy saving and consumption reduction	Regularly
	Progress report	Labour standards	Regularly
 Customers, consumers	Customer satisfaction survey	Product quality and service	Annually
	Community services	Consumer rights protection	Regularly
	Plant open day		Regularly
	Hearing		As and when necessary
	User seminar		Regularly/as and when necessary
	WeChat official account		As and when necessary
 Employees	Business meeting	Remuneration and benefits	Regularly
	Employee seminar	Employment	Year-end/half-year
	Employee representative meeting		Annually/biannually
	Interview	Development and training	As and when necessary
	Team building	Work environment	Regularly
	Training	Health and safety	Regularly/as and when necessary
	Employee group activity	Labour standards	Regularly
	China Water News (internal publication)		Regularly
 Suppliers	Procurement tender	Resources use	As and when necessary
	Site visit	Procurement behaviours	As and when necessary
	Meeting	Anti-corruption	As and when necessary
	Product briefing		As and when necessary
 Local community	Plant open day/eco-day	Community investment	Regularly
	Community service		Regularly/as and when necessary
	Survey on environmental and social impact	Charity and relief	As and when necessary
	Public welfare and charity event		As and when necessary

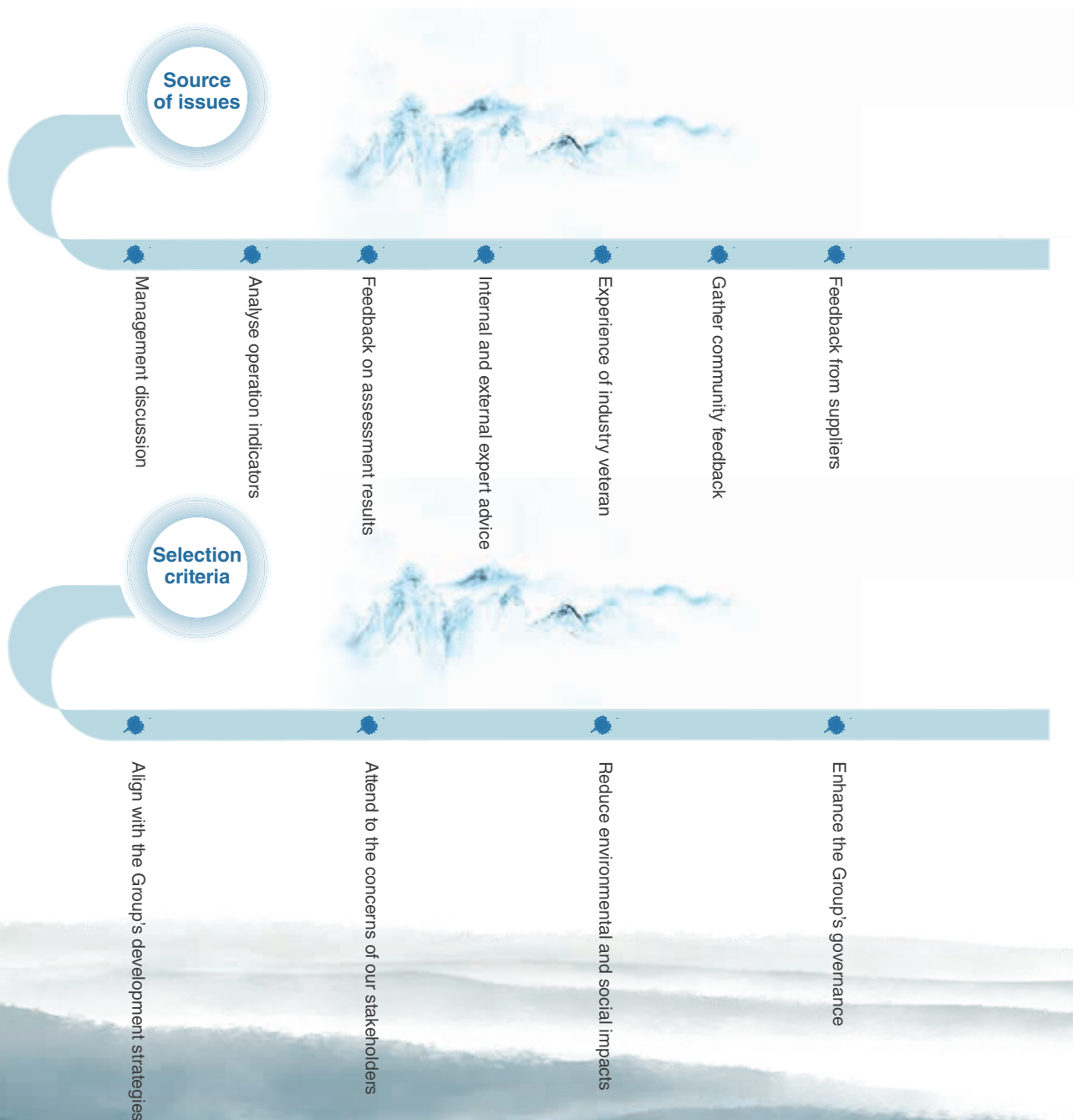
實質性分析

Materiality Analysis

With reference to the requirements of “Environmental, Social and Governance Reporting Guidelines” of the Hong Kong Stock Exchange and the issues sets out by the materiality list in “G4 Sustainability Reporting Guidelines” of Global Reporting Initiative(GRI)

and taking into account the results of stakeholder engagement, China Water identifies, prioritises and verifies its material issues and determines the level of disclosure and reporting boundaries.

Process of materiality analysis:



IDENTIFICATION

By rationalising our policies, setting out clear strategies, reviewing our business and determining our sustainable development goals, as well as considering our stakeholder engagement, the Group identified 20 materiality issues and determined the scope and boundaries of their impact.

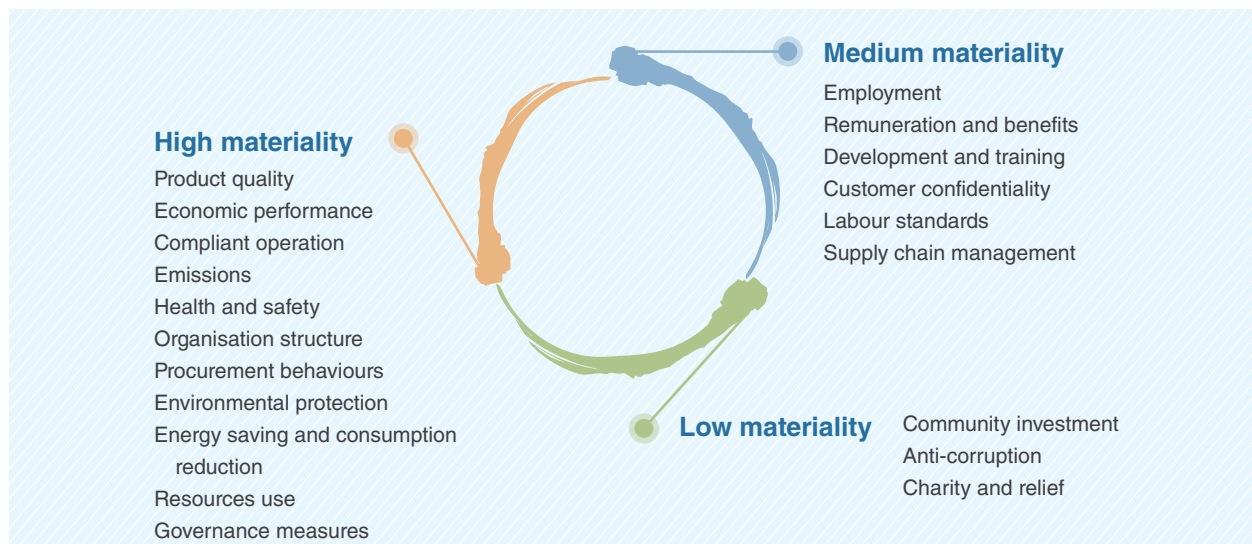
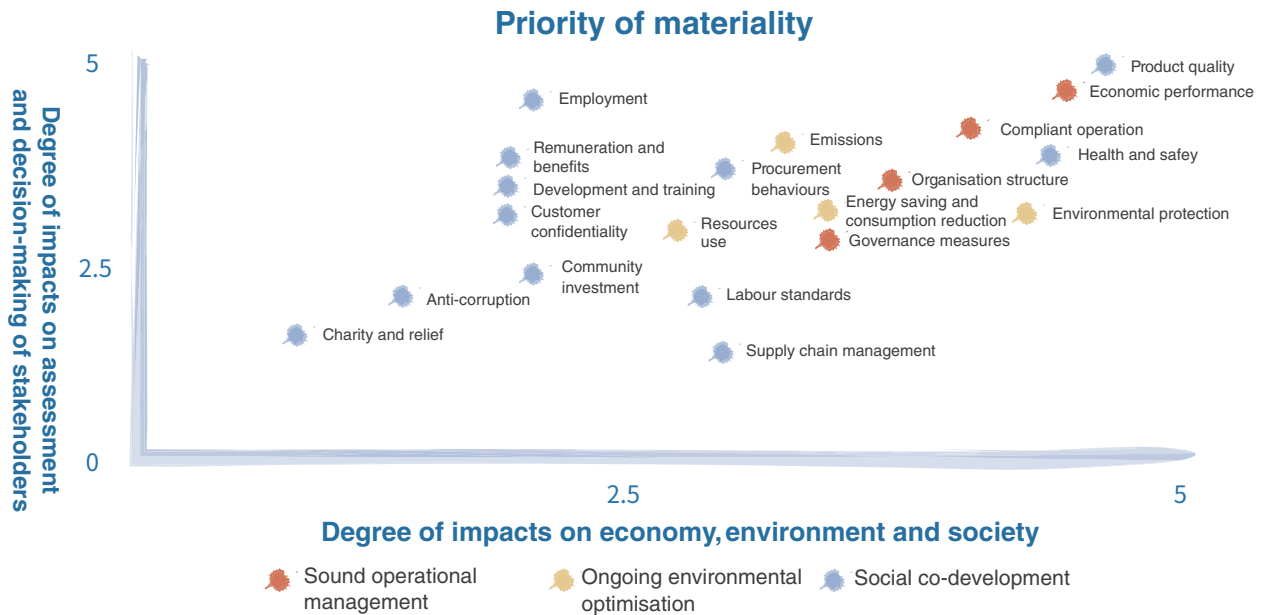
No.	Aspect	Materiality issues	Scope of impact						Boundary
			Internal	Investors Creditors	Government	Customers Consumers	Suppliers	Community	
1	Establish a rational, effective and legitimate management platform	Governance measures	●	●	●	●	●	●	Materiality aspects are applicable to China Water and its subsidiaries and associated companies ⁽¹⁾
2		Organisation structure	●	●	●	●	●	●	
3		Economic performance	●	●	●	●	●	●	
4		Compliant operation	●	●	●	●	●	●	
5	Actively, comprehensively and sustainably promoting environmental improvement	Emissions	●	●	●	●	●	●	
6		Energy saving and consumption reduction	●	●	●	●	●	●	
7		Environmental protection	●	●	●	●	●	●	
8		Resources use	●	●	●	●	●	●	
9	Practice the cooperative development of society with passion, kindness and aggressiveness	Employment	●	●	●	●	●	●	
10		Remuneration and benefits	●	●	●	●	●	●	
11		Development and training	●	●	●	●	●	●	
12		Health and safety	●	●	●	●	●	●	
13		Labour standards	●	●	●	●	●	●	
14		Supply chain management	●	●	●	●	●	●	
15		Procurement behaviours	●	●	●	●	●	●	
16		Anti-corruption	●	●	●	●	●	●	
17		Product quality	●	●	●	●	●	●	
18		Customer confidentiality	●	●	●	●	●	●	
19		Community investment	●	●	●	●	●	●	
20		Charity and relief	●	●	●	●	●	●	

● represents materiality issues with larger impacts on stakeholders ● represents materiality issues with less impacts on stakeholders

⁽¹⁾ Kangda International is not included in this report. For details of Kangda International's Environmental, Social and Governance ("ESG") performance, please refer to Kangda International's ESG Report 2019.

PRIORITISATION

The identified materiality issues are prioritised in terms of importance according to the degree of impacts on the economy, environment, society as well as the assessment and decision-making of our stakeholders.



VERIFICATION

In respect of the identified materiality issues, the Group collects opinions from experts, users and stakeholders and carries out verification. Meanwhile, the Group formulates administrative measures regarding the indicators involved in the materiality issues to determine the means and procedures of indicator collection so as to ensure the reasonableness, balance and completeness of the report.

構建管治平台

Construction of Management Platform

Sound corporate governance is essential to boost investor confidence as it helps to define decision-making procedures and management responsibilities and increase operation transparency. China Water has always been committed to maintaining high standards of corporate governance and strictly complying with national laws, regulations and industry standards in the course of its operation and management as well as its mergers and acquisitions. It has been steadfastly implementing its sustainable development strategy to provide sufficient protection to the interests of its shareholders and create values for the society.

The Group's governance policy is in compliance with the relevant guidelines in the "Corporate Governance Code" and "Corporate Governance Report" as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. We have built a legitimate, rational and efficient governance model by establishing a sound management structure with comprehensive rules and regulations, conducting regular audits, fully implementing risk prevention and control, and disclosing accurate corporate information in a timely manner.

THE BOARD

As the highest decision-making body, the Board is responsible for formulating and authorising the Group's governance policies, providing leadership and supervising our management, reviewing the Group's business performance, and ensuring effective risk management and internal control. The Group's Board comprises 14 directors, including 5 executive directors, 4 non-executive directors and 5 independent non-executive directors.

The Board has set up three board committees, namely the Audit Committee, Nomination Committee and Remuneration Committee.

The Audit Committee is mainly responsible for reviewing the Company's accounting policies and monitoring the financial reporting procedures, monitoring the performance of the internal and external auditors, reviewing and verifying the effectiveness of the Group's risk management and internal control measures, and ensuring compliance with applicable laws and regulations and regulatory requirements.

The Nomination Committee is responsible for identifying qualified candidates for the Board, nominating talented professionals and quality individuals to join the Group, safeguarding a strong and diverse Board, and making recommendations to the Board on matters relating to the appointment or reappointment of directors as necessary.

The Remuneration Committee is mainly responsible for making recommendations on the remuneration policies and systems for senior management of the Company, reviewing the Company's remuneration structure and formulating remuneration incentive plans to ensure that the remuneration level is in line with the Group's longterm interests and risk policies.

RISK MANAGEMENT

The Board is fully responsible for maintaining a sound and effective internal control system for the Group, which include establishing a risk management framework, defining authorities, safeguarding corporate assets against unauthorised misappropriation or handling, ensuring proper maintenance of financial records for internal use or disclosure, and ensuring compliance with laws and industry regulations.

The Group has established a four-level risk management framework comprising the decision-making level (the Board), the executive level (management), the operation level (departments of different functions in the Group's headquarter) and the corporate level (person-in-charge of risk management of the Group's subsidiaries) to meet the requirement for continuous control of risks during our business development. Within the framework, the Board is responsible for implementing controls from the top, while the business level, which includes our finance, engineering, operation, legal and human resources teams, utilise their expertise to help our management to discharge their internal control responsibilities. Meanwhile, the Audit Committee, assisted by our external auditors, is responsible for monitoring the practices of our management and the effectiveness of the internal controls in place.

During the reporting period, the Group's management held risk management meetings with our operation level and identified three types of significant risks, namely operational risk, compliance risk and financial risk. The audit department assessed our potential risks through surveys and interviews to further distinguish our risks and submitted the "Risk Management and Internal Control Report" to the Audit Committee.

GOVERNANCE OF PROJECT COMPANIES

The Group abides by the "Administration Measures for the Concession Arrangements of Infrastructure and Public Utilities" in mergers and acquisitions of new projects. It actively cooperates with local governments to acquire project concession through public tenders or competitive negotiation, and establishes project companies at the same time. A board of directors, board of supervisors and operation and management team are formed within the project companies to

perform such duties and exercise such powers of a decision-making organ, supervision organ and management organ respectively in strict compliance with the Company Law of the People's Republic of China.

For details of the corporate governance, please refer to the relevant contents disclosed in the annual report of the Group.

推進環境改善

Promoting Environmental Improvement

Environmental pollution is not a social issue that could be single out, it is closely related to the political and economic development of our society. With the formal inclusion of ecological civilisation in the Constitution of the People's Republic of China and the reorganisation of the Ministry of Ecology and Environment, the PRC has made environmental protection its fundamental state policy, entering a brand-new stage of ecological civilisation construction.

As a public utility provider, China Water fully recognises that environmental improvement is the only option for businesses to achieve sustainable development. Being in huge debt to the environment, mankind must

not proceed on the path of "abatement after pollution" which leads us to doom. The Group is principally engaged in water supply and sewage treatment, which is inherently eco-friendly. In recent years, with the implementation of the strategies of urban-rural water supply integration and integration of water supply and drainage, the Group's environmental value chain has been further extended. In addition, the Group is committed to developing its direct drinking water business to create a healthy water consumption model and to reduce the consumption of plastic bottle, in an effort to alleviate the "white pollution" plaguing our planet.

Stay Ambitious - Acquisition of Kangda International

In April 2019, China Water Affairs Group Limited entered into an agreement with the original shareholders of Kangda International Environmental Company Limited ("Kangda International") (stock code: 06136.HK) to acquire 29.52% of its equity interests for HK\$1.2 billion.

As one of the first environmental protection businesses equipped with the most comprehensive assets in the PRC, Kangda International is also a listed company with its core business focusing on investment, construction and operation of water infrastructure and is mainly engaged in urban water treatment, water environment comprehensive remediation and rural water improvement. As of 31 December 2019, Kangda International had total assets of approximately RMB16.7 billion and owned 109 urban water projects, with daily sewage treatment capacity of 4.03 million m³, daily water supply capacity of 180,000 m³, daily recycled water treatment capacity of 65,000 m³ and daily sludge treatment capacity of 550 m³. Headquartered in Chongqing, its projects cover Beijing, Tianjin, Shandong, Henan, Heilongjiang, Zhejiang, Guangdong, Guangxi, Guizhou, Anhui, Shanxi, Jiangsu, Hebei, Jilin, Liaoning, Shaanxi, Sichuan and Fujian provinces/municipalities.

The acquisition of Kangda International will better utilise the synergy between the two companies, which will facilitate the Group's business integration, accelerate the process of urban-rural water supply integration and integration of water supply and drainage, significantly enhance our water supply and sewage treatment capacity and rapidly expand the coverage of our projects, demonstrating the Group's firm determination to promote environmental improvement.



Extend our Urban Water Supply and Kindness - Facilitate Urban-rural Water Supply Integration

Supply of safe drinking water in rural areas represents an important indicator of the improvement of quality of life of those residents and the improvement of the ecological environment. It is also the fundamental for the construction of a lively village. With the aims to provide a safe solution for drinking water in rural areas, strengthen the construction of rural water supply infrastructure, enhance the quality of water supply services, and promote the revitalisation of rural areas and urban-rural co-development, the Group comprehensively implements the strategy of urban-rural water supply integration with standardised

planning and consideration of local conditions. Based on the extension of urban water supply pipelines and large-scale water supply projects, our urban-rural water supply system is supplemented by small-scale centralised water supply projects and discrete water supply projects, in order to achieve full coverage and the sharing of quality water supply between urban and rural areas. During the reporting period, the Group had 320,000 new households and 1.11 million new users of our urban-rural water supply.

Case: Efficient takeover of urban-rural water supply integration in Ye County, Henan Province

The water supplies department in Ye County engaged the Group's subsidiary Yexian Guoyuan Water Affairs Co., Ltd. to run a safe drinking water project in the rural area. By the end of 2019, the Company had completed the takeover of water supply management for 554 administrative villages, 414 pump stations and 203,400 rural users, with an annual investment of RMB7.1 million for renovation and maintenance. During the Meeting on Water Affairs, Poverty Alleviation and Safe Drinking Water in Henan Province held in July 2019, officials of the provincial government highly praised the urban-rural water supply integration project in Ye County.



Meeting on Water Affairs, Poverty Alleviation and Safe Drinking Water in Henan Province
– Officials visiting Yexian Guoyuan Water Affairs Co., Ltd.

Case: Urban-rural water supply integration project in Xinyu City, Jiangxi substantially completed

The Group and the government of Xinyu City entered into an urban-rural water supply concession agreement in respect of two projects in Yushui District and Fenyi District with a total investment amount of approximately RMB1.276 billion. The Company expanded the daily water supply capacity of Xinyu No. 4 Water Plant to 75,000 m³, built a new Nan'an Water Plant, laid 1,100 km of main water network and extended 5,600 km of pipelines into villages and households. As a result, water supply to villages with over 50 households are fully secured and more than 600,000 people of rural households are benefited.

Case: Entrusted operation of urban-rural water supply integration in Salt Lake District, Yuncheng City, Shanxi Province

The water supplies department in Salt Lake District, Yuncheng City engaged the Group's subsidiary Yuncheng Silver Dragon Water Affairs Co., Ltd. to manage and operate the centralised water supply project to provide safe drinking water to the rural areas. The Company has now completed the takeover of management for 18 towns, 248 administrative villages, 11 centralised water supply stations and 1 cistern, providing safe drinking water solution to 380,000 rural users.



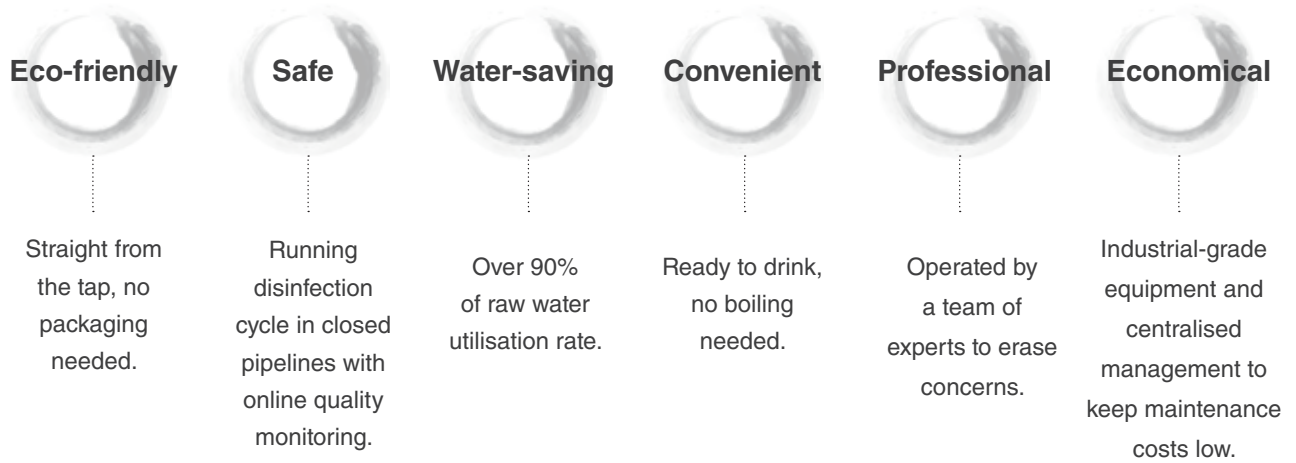
Dual Water Supply - Providing the Best Direct Drinking Water in the PRC

According to a research, the annual consumption of bottled water per capita in the PRC is 32.1 liters, which is close to 45 billion liters in total. Based on the average size of a 500 ml package, it is estimated that 90 billion of packages were produced, and the plastic used to produce bottled water are not biodegradable in the natural environment. At present, less than 10% of worldwide plastic waste are recycled and most of them are disposed of into the natural environment, creating a severe and unmanageable "white pollution".

To alleviate the plastic crisis, so as to save our ecological environment and create a healthy future, the Group has been committed to developing its environment-friendly and people-oriented dual water supply business, with the aim of enabling more people to enjoy healthy and quality water without consuming bottled water. In the past year, the Group established Jiangxi Yinli Direct Drinking Equipment Co. Ltd., a joint venture with ORIX and Toray Group from Japan, to develop its own core technology for direct drinking water. Meanwhile, the Group invested in Changsha Water Cup Direct Drinking Water Construction Equipment Co., Ltd. and established a direct drinking water management center to improve its management and market expansion capacity. Through extensive research and testing, the Company has launched a full set of direct drinking water equipment with China Water features and state of the art technology in the PRC, which has been widely praised by professionals in the industry.

Relying on our good reputation, abundant capital, exquisite technology, excellent management and refined services, the Group has established direct drinking water businesses in 31 cities and invested in more than 200 direct drinking water projects, serving a population of 680,000. In the future, the Group will go beyond the regions with present water supply projects and deploy its dual water supply business nationwide to further promote the benefits to environment brought by direct drinking water.





Case

In Changsha, Hunan Province, the Group invested RMB40 million in a campus direct drinking water project to provide direct drinking water to 230 schools with over 200,000 students. It is also one of the drafting units of the "Technical Requirements and Configuration Standards of Membrane Technology for Direct Drinking Water Treatment Equipment in Primary and Secondary School" of Ministry of Education of the PRC.

Case

In Ningxiang City, Hunan Province, the Group invested RMB20 million to perform direct drinking water renovation in old districts for more than 20,000 residents and finished direct drinking water demonstration projects for 10 schools. The Group also deployed direct drinking water facilities in 16 municipal public spaces such as Home for Everyone, Ningxiang Station and Yutan Park.

Case

The Group invested RMB26 million to develop and run a direct drinking water project in Yuncheng City, Shanxi Province, providing direct drinking water to the government, business enterprises and public institutions, social welfare organisations, small residential districts, 20 primary and secondary schools and 21 villages, serving a population of nearly 100,000.



Environmental Management System Throughout the Process

In order to regulate the environmental and social management of investment and construction projects, the Group has formulated the “Environmental and Social Management System” (the “ESMS”) in 2011. It was subjected to multiple revisions and the latest version was prepared in September 2018. ESMS provides that the investment and construction projects under the Group and its subsidiaries shall comply with the system for the purposes of comprehensive identification and analysis of any potential environmental and social risks and formulation of remedial measures. Disclosure of information, discussion about concerned areas and supervision from relevant stakeholders shall be duly conducted throughout the implementation of the projects. Meanwhile, the Group has established a standardised management system which combines five key elements: water production, water supply, safety, service and branding. The Group inspects and supervises the compliance of its subsidiaries with the relevant standards on an irregular basis. An evaluation is conducted every year, whereby reward or punishment is made based on the marks given. Environmental management covering the whole process from initiation to ultimate operation of a project is basically achieved.



Water-oriented – Engrave the Life Line of Urban Water Supply

While urbanisation has now entered a stage of larger scale and higher density, urban water supply, being at the center of social development and everyone's livelihood, is facing severe challenges. For over a decade, the Group has always stayed true to its water supply commitment and has accumulated extensive experience. With its high-caliber management and a strong sense of responsibility and mission, it has safeguarded people's well-being, promoted the economy and served the community by providing quality and safe drinking water to countless families.

During the reporting period, the Group supplied a total of 1.331 billion m³ of purified tap water, ensuring 30 million people accessibilities to water for drinking and other needs.

Supply of purified tap water

1.331 billion m³

Ensuring accessibilities to water for drinking and other needs for

30 million people



Water Improvement for the Good of All

- Reduce Environmental Impact of Wastewater

The scarcity of water as a natural resource needs no further explanation. Sewage treatment not only improves our ecological environment, but also recycles and reuses our water resources, which is of great significance to the sustainable development of businesses, society and even mankind. The Group continuously processes its wastewater effectively to minimise its environmental impacts. Meanwhile, it also upgrades and improves its sewage treatment plants and the majority of our wastewater is in compliance with the First Grade A under the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (GB18918-2002). All of our sewage treatment projects are equipped with effluent monitoring systems, which are capable of recording effluent quality data in a timely and reliable manner.

During the reporting period, the Group processed a total of 201 million m³ of sewage, reduced 43,463 tonnes of COD emissions, reduced 19,193 tonnes of BOD emissions, reduced 36,677 tonnes of particulate matter emissions, and reduced 4,768 tonnes of ammonia nitrogen emissions.

Total processed sewage

201 million m³



Consume Water with Gratitude

- Initiate Water Environment Comprehensive Remediation

Urban water environment remediation is associated with people's well-being and plays an important role in improving the image of a city and the living environment. The Group proactively initiates its urban water environment comprehensive remediation starting

from water resources, water ecology, water safety, water culture and water economy, and focuses on enhancing the people's sense of fulfillment, happiness and security, which highlights the value of our business.

Case: Comprehensive water and riverbank treatment campaign "Two Rivers and Fourteen Nullahs" in Hegang City

The comprehensive water and riverbank treatment campaign "Two Rivers and Fourteen Nullahs" in Hegang City is a people-oriented construction that prioritises the ecosystem and proceeds comprehensively under sophisticated leadership. With thorough consideration of the current water environment, it is broken down into seven major sections, namely prevention of floods, sediment dredging, ecological restoration, interception of sewage, river water replenishment, riverside promenade and riverbank greening, with the goals of clear waterway, limpid water, green riverbank and ravishing landscape are ultimately achieved.



Lucid Waters and Lush Mountains – Beautify the Rural Area

Improving the rural living environment and building lively and ideal villages for residency are not only important tasks in the implementation of the rural revitalisation strategy, but also act as a fundamental base for the construction of a livelier China and the

balanced co-development of urban and rural areas. Guided by the general national policies, the Group devotes itself to the exploration of water value by focusing on the environmental issues in rural areas and actively carrying out rural sewage treatment.

Case: Rural domestic sewage treatment project in Yushui District, Xinyu City

The rural domestic sewage treatment project in Yushui District, Xinyu City undertaken by the Group involves 11 towns and 138 natural villages, including 9 town sewage treatment stations and 136 village-level sewage treatment stations, with 362.3 km of sewage pipes and a daily sewage treatment capacity of 25,000 m³ in total, benefiting more than 43,000 residents.



Drain the Swamp - Operation and Maintenance of Urban Drainage Network

Within the Group there are professional providers of operation and maintenance for urban drainage network. With our flexible mechanisms, efficient management, capable teams and extensive experience, the Group has established a scientific and systematic operation and maintenance system and management model for its urban rainwater and sewage pipeline network, which has continuously increased the operational efficiency of our drainage pipeline network and significantly improved the urban landscape and water environment quality in the region.

The Group operates and maintains more than 5,155 km of drainage networks, which are mainly located in Pingshan District, Longhua District, Bao'an District and Dapeng New District, Shenzhen City, and Nanchong City, Sichuan Province.

Drainage pipelines operated and managed by the Group exceed

5,155 km



Energy-saving and Reduce Emissions

- Enjoying Crystal-clear Water and Blue Sky Together

According to the data of the United Nations, drinking water and sewage treatment consume 25% ~ 40% of municipal electricity supply, representing around 2% of global carbon emissions. As a public utility provider, the Group has always regarded energy-saving and emission reduction as key issues of its operation and management, which are strictly implemented in its daily operation. During the year under review, the Group also published the “Green Operation Proposal” to introduce the green operation concepts of "economical production", "clean production" and "ethical production" and relevant guidelines, under which the Group supervised its subsidiaries to carry out energy saving and emission reduction practices, raised the awareness of all employees and practiced green and sustainable development with practical actions.

During the reporting period, there was no significant environmental pollution incidents occurred within the Group.



Emissions

The major pollutants emitted during production and operation of the Group are divided into two categories:

The first category is the sludge produced during the water production process at the tap water plant, the key components of which are the dissolved substances in the natural body of water and the water purifiers added during the purification process.

The second category is the waste gases, sludge and treated discharge produced during sewage treatment at sewage plant. Waste gases are CO₂, H₂S and NH₃ produced in the course of bioprocessing; sludge mainly includes silt, garbage and excess activated sludge; major pollutants in treated discharge are COD, SS and NH₃-N.

The Group has in place a comprehensive set of management processes and operational procedures for general emissions that have smaller impacts on the environment under its operation and management standards, covering identification, discharge, disposal and regulation of emissions to ensure compliant emission. Hazardous emissions produced by industrial sewage treatment plants are dealt with by qualified professional companies.

Emission categories and emission data (A1.1)

Category	Emission	Total volume of emission during the reporting period (tonnes)	Total volume of emission in the last year (tonnes)	Emission method	Compliance with applicable laws and regulations
Water supply	Sludge Naturally dissolved substances and water purifiers	165,442	152,266	Compliant emission	
Sewage treatment	Air emission	H ₂ S Below emission limit	Below emission limit	Compliant emission	"Environmental Protection Law of the People's Republic of China"
		NH ₃ Below emission limit	Below emission limit	Compliant emission	"Environmental Impact Assessment Law of the People's Republic of China"
	Treated discharge	COD 4,533	4,617	Compliant emission	"Water Pollution Prevention and Control Law of the People's Republic of China"
		SS 2,224	2,145	Compliant emission	"Atmospheric Pollution Prevention and Control Law of the People's Republic of China"
		NH ₃ -N 301	367	Compliant emission	"Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste"
	Sludge	Silt, garbage and excess activated sludge 60,710	63,921	Sludge from domestic sewage treatment plants is used for reclamation and electricity generation after dehydration and desiccation; and sludge from industrial sewage treatment plants is dealt with by qualified professional companies after dehydration and desiccation	"Ambient Air Quality Standards"
					"Environmental Quality Standards for Surface Water"
					"Environmental Quality Standards for Underground Water Emission"
					"Standards for Odour Pollutants"
					"Pollutants Emission Standards of Urban Sewage Water Treatment Plant"

Hazardous wastes (A1.3/A1.6)

The hazardous wastes produced in the course of operation of the Group are mainly sludge produced in our industrial sewage treatment plants. During the reporting period, total sludge produced was amounted to 4,539 tonnes, all of which were properly dealt with by qualified professional companies.

Non-hazardous wastes (A1.4/A1.6)

The non-hazardous wastes produced in the course of operation of the Group are mainly sludge produced in tap water plants and domestic sewage treatment plants. During the reporting period, total sludge produced was amounted to 223,882 tonnes. Treated sludge, which met with the emission standards, was dealt with by the local environmental hygiene departments after dehydration and desiccation. Major processing methods include reclamation, compost or combustion for electricity generation.

Greenhouse gas (“GHG”) emission (A1.2)

GHG directly produced by the Group in the course of production and operation is very limited. It is mainly produced from fuel used in production and office premises; while the indirect generation of GHG is mainly attributed to power consumption in the course of production. The direct and indirect GHG emissions are calculated in CO₂ equivalent (unit: tonnes).

Category	Scope 1 – Direct GHG emissions	Scope 2 – Indirect GHG emissions	Scope 3 – Other indirect GHG emissions	Total amount
Water supply business	1,913	276,304	N/A	278,217
Sewage treatment business	22	46,311	N/A	46,333
Total	1,935	322,615	N/A	324,550

* The definition of GHG Indicator Scope is cited from United Nation's Kyoto Protocol and The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard of WRI and WBCSD.

Scope 1: Direct GHG emissions which are derived from sources that are owned or controlled by the corporation (including those produced in the course of production process and those produced in fuel consumption).

Scope 2: Indirect GHG emissions which result from the electricity, heating, cooling and steam purchased from other entities for self-consumption (produced from purchased electricity).

Scope 3: Other indirect GHG emissions which are produced as a result of the activities of the entity but the emissions are not derived from sources owned or controlled by the corporation. The Group has not established any statistical method for scope 3.

Emission factor and global warming potential (“GWP”) are based on United Nation's Inter-governmental Panel on Climate Change (“IPCC”) data.

Energy saving and consumption reduction (A1.5)

Tap water plants and sewage treatment plants are typically big consumer of energy among municipal utilities, and they account for around 2% of total energy consumption nationwide. Energy saving and consumption reduction is not only a cost optimisation strategy for the business itself, but also an important measure to promote environmental improvement. The Group has incorporated energy consumption indicators into its performance appraisal system, set energy consumption standards in accordance with the actual situation of its subsidiaries, and strengthen its guidance in daily operation. During the reporting period, energy consumption of the water supply business accounted for 15.64% of the cost of production, which was lower than 16.38% of last year; energy consumption of the sewage treatment business accounted for 21.60% of the cost of production, which was lower than 22.27% of last year.

All of the energy used by the Group is indirect energy (A2.1)

Category	Power consumption (MWh)	Unit power consumption (kW-h/'000 m ³)	Fuel consumption (tonnes)
Water supply business	351,980	227	597
Sewage treatment business	58,995	293	7
Total	410,975	N/A	604

Total energy consumption (converted from power consumption and fuel consumption) is 1,479,861 GJ

On-site supervision by expert team

The Group engages internal and external experts to set up a task force to reduce leakage ratio and implement energy saving and consumption reduction initiatives. According to our plan, it conducts on-site supervision of our subsidiaries, especially those newly acquired subsidiaries, and provides solutions based on thorough research and studies. The results of which are remarkable. During the reporting period, the average leakage ratio of the Group was 14.32%, lower than the average leakage ratio of 22.01% of the industry; the average power consumption per unit water supply of the Group was 227 kW-h/'000 m³, lower than the average power consumption per unit water supply of 337 kW-h/'000 m³ of the industry (A2.3).



Develop clean energy

Compared with hydropower, wind power and nuclear power, solar power does not generate any emission and noise. It is the cleanest way to generate power with its established, safe and reliable technology. The Group makes full use of the space and natural light in its tap water plants and sewage treatment plants, and encourages its subsidiaries to adopt distributed photovoltaic power generation to increase the use of clean energy. During the reporting period, the Group produced clean energy of 40,086MWh, accounting for approximately 10% of the total power consumption; as of 31 March 2020, the total installed capacity of the Group's photovoltaic construction works reached 51MW. It is expected that the clean energy to be provided upon full load operation will account for more than 14% of the total power consumption.



Implementation of water conservation and water source protection

The Group is primarily engaged in water supply and sewage treatment business, it does not have any issue in sourcing water that is fit for purpose, but is an unswerving advocater and practitioner of water conservation and efficiency (A2.4). During the reporting

period, the Group's total water intake and water supply were 1,597.63 million tonnes and 1,553.12 million tonnes respectively. Total water use amounted to 44.51 million tonnes, and the percentage of unit water use was 2.79% (A2.2).



Environment and natural resources (A3.1)

Construction and operation of water projects have considerable impacts on the environment and natural resources. The impacts mainly refer to the wastewater, waste gases, waste residues and noise produced in the course of construction, which are limited and generally temporary. When making an investment decision, the Group will fully consider the environmental and natural resources impact factors of the project and engage qualified third parties to carry out feasibility studies and assessment of environmental impacts in the earlier phase of the construction. External expert panels will also be engaged to conduct a second assessment. During the construction, while fulfilling basic quality and safety requirements, we try to maximise resources conservation and minimise construction activities that have negative impact on the environment through scientific management and under technical guidance, so as to achieve conservation of energy, land, water and material as well as environmental protection.

No construction projects of the Group fall under category that may have a material impact on the environment under the Catalogue for the Classified Administration of Environmental Protection for Construction Projects issued by the State Council.



The natural resources consumed are renewable industrial products, which are mainly the water purifiers and disinfectants added in the course of tap water production and sewage treatment.

Category	Type	Consumption (tonnes)	Unit average consumption (kg/000 m ³)
Water purifier	PAC	13,327	10.4
	Al ₂ (SO ₄) ₃	12	5.3
	NaOH	1,118	5.4
Disinfectant	Liquid chlorine	1,966	1.9
	ClO ₂	745	2.9
	NaClO	1,393	4.8

踐行社會協同發展

Practice the Cooperative Development of Society

Proceeding the path of striving to become the best utility-oriented conglomerate, China Water stays true to its initial calling and mission as a public utility company, and has actively fulfilled social responsibility and practice the cooperative development of our society. Through its all-round care for the employees, lively and comprehensive training and education, various community services and concerted efforts in brand building, the Group has established a strong bond with the society and the public, highlighting the core value of "Water-oriented, Kindness to Society".

During the reporting period, the economic value created by the Group and the wealth distributed to stakeholders were as follows:

Stakeholders	Indicator	(HK\$'000)	
Investors/creditors	Revenue	8,694,303	Economic value created by the Group
Suppliers (products and services)	Cost	4,935,818	Economic value allocated by the Group
Employees	Remuneration and benefit expenses	930,895	
Creditors	Finance cost	429,215	
Shareholders	Dividend allocation	481,209	
Government	Income tax	657,220	
Investors/shareholders	Total equity	14,098,503	Economic value retained by the Group



Fight against the novel coronavirus pneumonia pandemic

At the beginning of the year, a pneumonia-causing novel coronavirus (COVID-19) pandemic, being branded as "plague of the century," has swept across the globe in just a few months, dealing a heavy blow to the whole world, including the PRC. As an integrated water supply operator focusing on urban water supply, the Group has operations in over 60 cities across the country and employed nearly 10,000 staff. We are facing unprecedented difficulties and challenges at the moment.

Since the outbreak of the pandemic, under the unified leadership and deployment of the Board and the management, the Group has responded steadily and decisively to the crisis by activating its contingency plans to strengthen safety precautions, adjust production and office operations, and establish reporting mechanism, which have enabled the entire Group to work together to fight against the pandemic and tide over the "darkest moment".

Prompt response

The Group promptly responded to national and local preventive and control policies by issuing the "Emergency Notice on the Effective Prevention and Control of Novel Coronavirus Pneumonia Pandemic"



and the "Novel Coronavirus Pneumonia Pandemic Prevention and Control Plan" in the first instance, which gain us valuable time for the subsequent prevention and control of the pandemic.

Enhance protection

Employee safety is the focus of the Group's preventive work. However, as water supply is everyone's basic need, the Group has an unshakable responsibility to secure a functioning community. Therefore, its employees have to step up during these difficult times and be dedicated to their mission. To minimise the risk, the Group has taken all necessary preventive and control measures to protect the safety of its employees, including remote office, operation in different locations, avoiding peak commuting hours, enhancing disinfection, mandatory quarantine, maintaining body temperature check record, as well as distributing sufficient preventive gears such as masks, disinfectant and protective clothing. As of today, there has not been any case of the Group's employees or their family members contracting novel coronavirus pneumonia.



Secure production

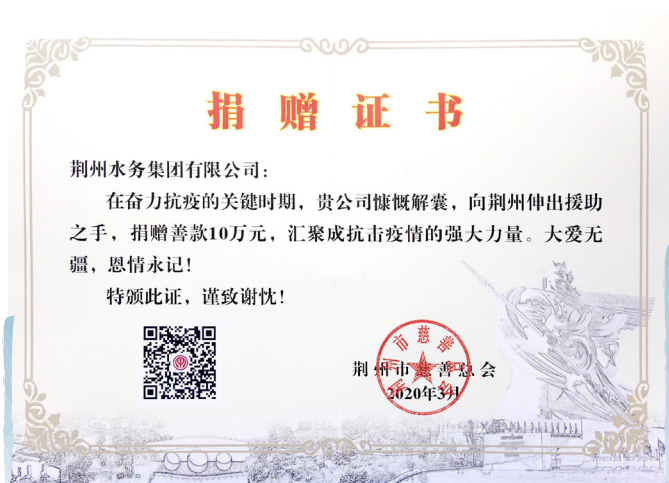
Under the ongoing pandemic, the various information technology and automated systems developed by the Group played an important role in securing the safe production of water supply. For example, we monitor and manage the entire water supply process through our SCADA water supply regulation system and our

unmanned monitoring system in our plants/pumping stations; we provide online integrated services to the users with our "Fingertip Water" App; and we ensure smooth workflow through our collaborative OA system. Up to now, no pandemic-related water supply safety incident has occurred in any of the Group's subsidiaries.

Support preventive initiatives

The crisis sets the perfect stage for our corporate value to shine through. The Group's subsidiaries have initiated donation to support local communities to defeat the pandemic in the battle. In the regions hardest-hit by

the pandemic, the Group also installs emergency water supply for preventive facilities such as mobile cabin hospitals, earning wide respect from the community.





Guangdong Renhua Silver Dragon Water Supply Co., Ltd. installing emergency water supply pipelines for a preventive and control kiosk in Renhua County

Like pine and cypress braving the coldest winter, the best of humanity always stands out in difficult times. Facing this immense crisis to mankind, the Group never sheds its responsibility, but stays focus on its operation and be ready to contribute. It fully lives by its corporate value of "Water-oriented, Kindness to Society" and its brand connotation of "China Water, Nourishing Thousands of Families with Love".

Fingertip Water App

To increase forms of service, enrich user experience and strengthen community support, the Group has conducted a comprehensive research and study to gain an in-depth understanding of the community and users' needs. According to which we have formed a professional R&D and operation team to develop an online platform - Fingertip Water App, which incorporates China Water's features and embodies our brand concept of "Nourishing Thousands of Families with Love".

The design concept of Fingertip Water App is to create a convenient platform for its users to "navigate with fingertip rather than going out". It puts various functions such as billing enquiry, service hotline, business guide and water affairs disclosure into one single application for its users to check water usage, settle water bills, check water quality, receive notification and news with just their smartphone, enabling them to immediately and continuously enjoy the full-range of the Group's quality service. To safeguard our intellectual property rights, Fingertip Water App has obtained Registration of Computer Software Copyright and Certificate of Zhongguancun High-Tech Enterprise which are recognised by the national government (B6.3). Meanwhile, to protect user's data, they must, when registering an account on this application, agree to the "User Protocol of Fingertip Water", which comprises the "Fingertip Water User Privacy Policy" that stipulates the collection, usage, storage, update, removal and protection of user's data (B6.5).

For the Group, Fingertip Water App represents a bond between the Company and its users and an important component of our service brand "China Water, Nourishing Thousands of Families with Love". During the novel coronavirus pneumonia outbreak this year, Fingertip Water App offered strong support to secure normal operation of our water supply and marketing business.

Advantages of our Fingertip Water App:

Establish a unified online service channel to facilitate management.

Accurate and effective delivery of notice to the users. Save operation cost by erasing the need to send SMS message.

Enable the payment of fee or deposit anytime and anywhere for more stable cash flow.

Enable big data analytics and lay the foundation for service expansion.



EMPLOYMENT

Employees

The Group safeguards the interest of employees by strictly following the requirements under the Labour Law of the People's Republic of China. It has entered into the Labour Contract with 9,356 employees, achieving a 100% signing rate.

Anti-discrimination

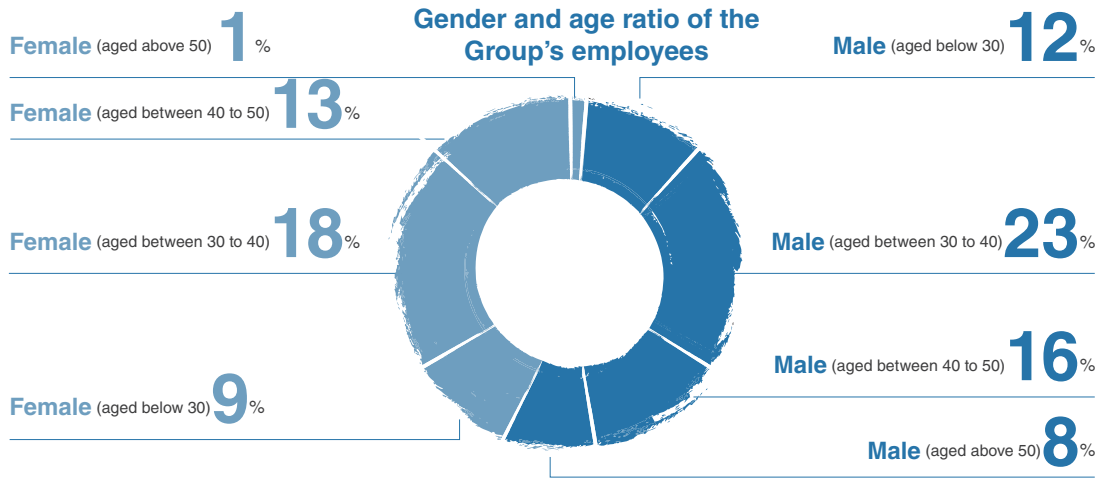
The Group follows a diversification and anti-discrimination principle to treat all employees fairly and recruit employees regardless of gender, race, pregnancy and religion.

Remuneration and benefits

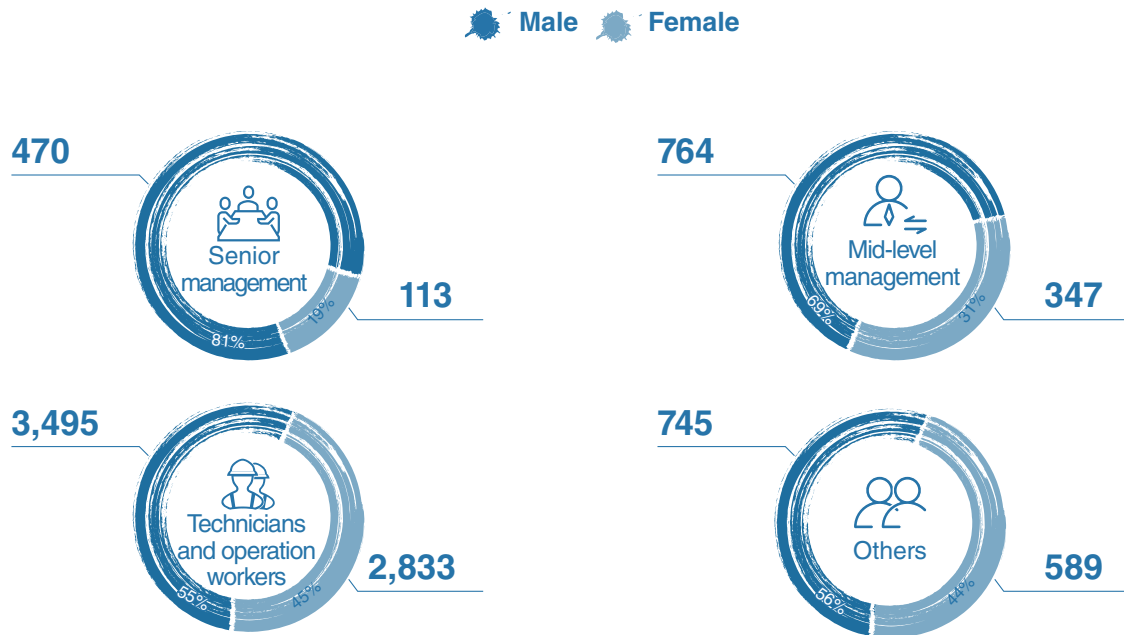
The remuneration system of the Group accords with the principle of “work more; get more”. Employees’ remunerations are determined based on individual performance and comprise position compensation, annual salary, stocks and share options. The income of employees is closely linked with the Group’s economic benefits, which serves as an incentive to employees.

The Group provides a comprehensive range of benefits for its employees, including the payment of five insurances and one fund in accordance with the law. The Group also provides a full range of work safety supplies, provision of transport, communication, holiday and catering allowances, and a paid leave system under which paid leaves are granted for national statutory holidays.

Employee structure by gender and age (B1.1)



Employee distribution by position



Male/female employee proportion, proportion of local employees and annual employee turnover rate (B1.2)

Total number of employees **9,356**

Proportion of local employees

86%

Annual employee turnover

1.24%

Care for employees

The Group not only offers competitive remuneration package and fringe benefits to its employees, but also provides necessary assistance to employees with distress due to special circumstances. On every holiday or anniversary, management personnel at all levels will pay visits to employees who stay loyal to their positions and provide sincere care and greetings to



them. Being gratitude to where we operate, the Group encourages employees to actively contribute to the society by participating in activities such as voluntary blood donation, voluntary tree planting and community construction as well as fostering an optimistic and healthy attitude towards work and life.



Health and safety (B2.3)

Always adhering to the safe production concept of "safety first and prevention", the Group is committed to minimising the potential safety and health risks in the workplace and creating a compliant working environment for employees. The Group has in place safe production regulation standards that provide the appointment of a safety officer and enters into the accountability letter for safety target with each level within the corporation, coupled with regular

risk inspections. Operating procedures and operation guidelines are continuously optimised during routine production. Specific plans are put in place to conduct safety trainings and tests on employees to ensure that they are familiarised with the management requirements and operating procedures. During the reporting period, no case of material safety liability incident occurred within the Group(B2.1/B2.2).

Indicators	Number
No. of employees involved in fatal incidents	0
No. of employees involved in work injury	0
No. of days lost due to work injury	0



Training and development

Realising that an evolving workforce is the foundation of sustainable business, the Group is willing to grow with our employee and share the fruits of development with them. Through organising a wide range of content-rich training, we aim to help our employees improve their professional skills, build team spirit, strengthen their sense of belonging to us and tap into their unlimited potential.




Incorporated as part of the Group's regular management, our trainings are coordinated by the human resources department for all employees, from senior management of the Group to frontline staff of the Group's subsidiaries. Our trainings cover corporate governance, business

operation, investment decision making, branding building, and information technology development. To avoid being reduced to mere formalities, the Group has formulated the "Training Management Rules" to ensure the implementation of our trainings and their effectiveness.

To maintain a reserve of talents to cope with our business development, the Group has been filling its talent pools of succeeding leaders and experts. Our management is selected through open competition and merit-based recruitment to provide a broad platform for capable and ambitious employees.



Trainings for employees (B3.1/B3.2)

Rank	Gender	Average training hours (hrs)	Percentage of employees trained (%)
 Senior management	Male	66	100%
	Female	66	100%
 Mid-level management	Male	70	92%
	Female	66	94%
 General staff	Male	62	90%
	Female	60	92%

Labour standards

The Group follows the relevant provisions in the Labour Law and the Labour Contract Law of the PRC and complies with the relevant rules of the International Labour Standards ("ILS"). The Group does not allow any form of forced labour and respects the right of workers to choose their profession freely. Labour contracts are entered into on an equal and voluntary basis. The Group does not require any employees to provide any collateral as a condition of employment. Employees are entitled to resign from work freely in accordance with the law.

As child labour (aged below 16) is strictly prohibited by the Group, rigorous screening is performed during recruitment. Employment is subject to approval by the local public security bureau and the bureau for labour and employment after the original identification document is verified (B4.1).

China Water respects workers' right to rest. Work hours do not exceed the national standards, i.e. no more than 40 hours

per week. Regulations for overtime work of employee is put in place. Any overtime work should be unanimously agreed with employees and compensated. No physical assault, mental oppression or verbal abuse to employees is allowed. The Group does not discriminate employees at work because of their age, gender, race and religion.

Each subsidiary of the Group has established a labour union as required. Employees may join a union of their own volition. Representatives of a union may negotiate with the respective company in respect of matters relating to their interest such as employment, wages and benefits, training and development, etc.

Human resources department and audit department has been established under the headquarters and in each subsidiary of the Group to regularly review and deal with violations of labour standards. During the reporting period, no violation against labour standards was identified (B4.2).



SUPPLY CHAIN MANAGEMENT (B5.2)

The Group extends our value of “Kindness to Society” to the supply chain level to ensure that the products and services of our suppliers meet our ideal of sustainability.

The Group adopts centralised procurement and conducts regular procurement tenders in its supply chain management. Our professional procurement department integrates and consolidates bulk materials through demand analysis and implements standardised and centralised procurement, which can improve work efficiency, regulate procurement practices, ensure product and service quality and reduce resource consumption during the procurement process. The Group also utilises an e-procurement platform to manage its suppliers and carry out open tender, invited tender, tender renewal and tender

request based on different procurement sizes and procurement features, which ensures the fairness and openness of the tender process.

The Group has prepared a supplier catalogue for bulk materials procurement for preliminary approval of the qualifications of suppliers. Criteria for approval include not only the scale, capability and quality of products and services of suppliers, but also whether or not suppliers have in place well-established policies in respect of environmental protection and social risk management. The supplier catalogue will be updated every year based on the cooperation status and suppliers’ environmental and social performance.

Distribution of suppliers (B5.1)

No. of suppliers

Northwest China 27	North China 200	Northeast China 21
	Central China 341	East China 646
Southwest China 129	South China 339	Total 1,703

* The data above indicates the number of suppliers that have entered into a supply contract with the Group and its subsidiaries during the reporting period, excluding suppliers which made occasional purchases.

PRODUCT RESPONSIBILITY

The Group considers product quality as its heart and implements product quality management in strict accordance with the relevant PRC laws and regulations and industry standards. The quality of tap water produced by its water supply subsidiaries must meet the Standards for Drinking Water Quality (GB5749-2006), whereas the discharge generated by its sewage treatment subsidiaries must meet the Standard of Pollutants for Municipal Sewage Treatment Plant (GB18918-2002). During the reporting period, the Group did not record any product recall due to product quality, safety and health reasons (B6.1).

Upgrade operational management standards

The Group has established a standardised management system comprising "Water Production Operation Management Standards", "Water Supply Operation Management Standards" and "Safety Production Management Standards". To further improve product quality and service quality, the Group has directed relevant departments, operation experts and technical management personnel of its subsidiaries to refine and upgrade the entire set of standards, especially to supplement the technical guidelines in the production process, enhancing the adaptability and practicability of the standards.

Strengthen water quality test

Not only do our water quality test results prove our product quality, but they are also effective means to review our production process and optimise our operation. According to the "Technical Standards for Laboratory Conformity", the Group manages the laboratories of its subsidiaries by categories and conducts regular tests to improve testing capabilities and the skill level of our laboratory personnel. At present, we have 2 laboratories which provide a full range of 106 types of tests; and 8 laboratories which provide 42 types of tests. We conduct internal or commissioned tests in strict accordance with the national water quality testing standards to ensure that our products are qualified (B6.4).



Organise water plant open days

The Group has strong self-confidence in the quality of its products. Its subsidiaries are required to organise regular water plant open days to provide visitors from all walks of life a tour on our production process, brief them on our water quality, listen to their reasonable suggestions, educate them on water affairs and deepen our interaction with customer, placing ourselves under supervision of the whole society.



“China Water, Nourishing Thousands of Families with Love” - Breeding excellence, a brand built with details drop by drop

As the pioneer of service brand building in the water industry, the Group strives to build a systematic, scientific and leading brand system and inspire its customers and the community with its high professionalism. It is committed to building a perfect, green and efficient service brand of “China Water, Nourishing Thousands of Families with Love” and leading the industry to improve service quality.

The Group's subsidiaries have comprehensively implemented the requirements of service brand building and allocated resources where needed. They have set up 24-hour service hotlines to continuously refine our "one-stop" service content and external service commitment system, with a comprehensively streamlined workflow of customer consultation, business conduction, request of repair, complaint, maintenance and repair, where customer experience and feedback are highly valued (B6.2).



The brand effect of “China Water, Nourishing Thousands of Families with Love”

Consolidate management

Service brand building is deeply integrated and intermingle with our standardised and refined management.

Staff enhancement

Provide continuous and comprehensive training throughout the year to build a team of high caliber employees that are "good at heart and sharp in action".

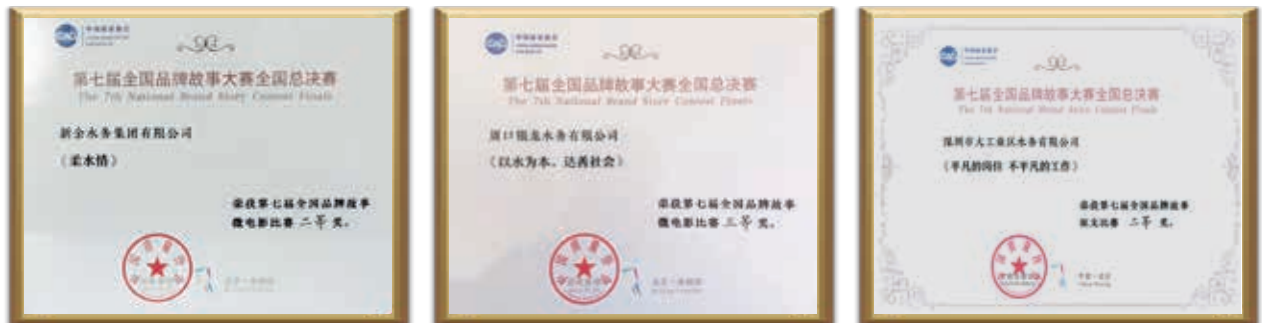
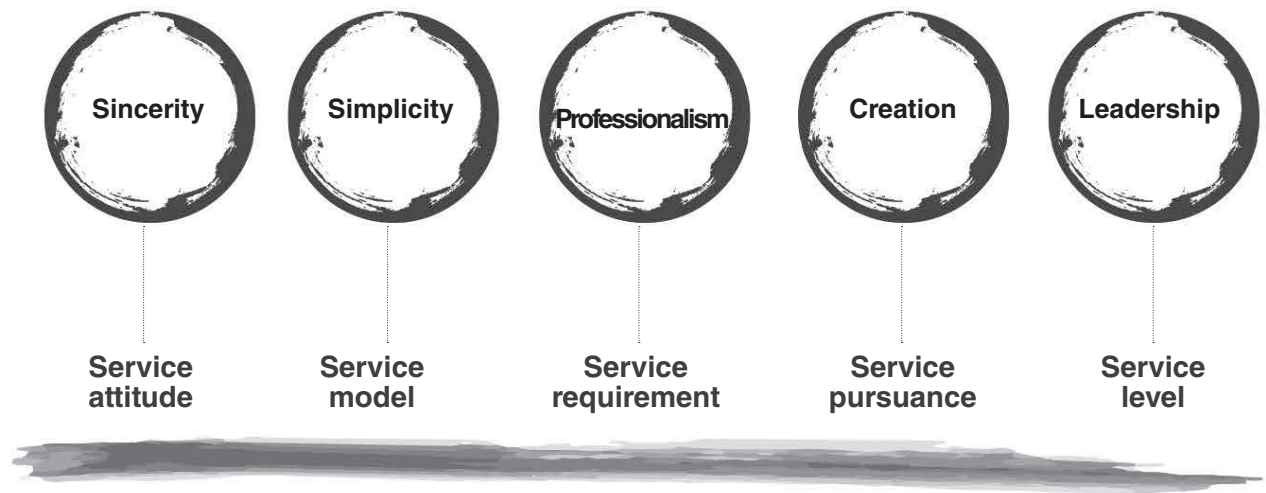
Broad communication

Organise regular social welfare and publicising activities to promote a sense of cohesion and educate through action.

Overwhelmed with honors

Our subsidiaries has been awarded various honors in the 7th National Brand Story Contest.





ANTI-CORRUPTION

The Group has always placed importance in building a corruption-free culture. By continuously refining our finance, construction, procurement, investment and audit systems to regulate group and individual behaviours, we provide anti-corruption education to all staff. It has a zero-tolerance policy towards abuse of power of duties and position for personal gain which damages the interest of customers, suppliers and other third parties. The Group has established an

audit committee and an audit department to regularly conduct risk identification meetings, systematically carry out comprehensive anti-corruption inspections and set up a public whistleblowing hotline, enabling both internal and external inspections of the Group (B7.2).

During the reporting period, no litigation relating to corruption was identified by the Group (B7.1).



COMMUNITY CONTRIBUTION

Upholding the core value of "Water-oriented, Kindness to Society", not only does the Group commit to safe and quality water supply and environmentally compliant emissions, but it also actively participates in community contribution, giving back to the public through practical actions and enhancing the cohesion between business and the community in practicing cooperative development of society.

In recent years, the Group has strived to build our service brand "China Water, Nourishing Thousands of Families with Love". On one hand, it is aimed at rationalising our internal management, enhancing our service standards and better serving the community; and on the other hand, we desire to enable more people to feel the enthusiasm of China Water themselves by strengthening community support and fulfilling its corporate social responsibility. The Group

has long held people-centred facilitation activities to listen to the needs of the community and, if possible, provide assistance to residents in need. In terms of employment and supplier selection, priority is given to local residents and businesses to enable the upgrade of industries in the project area. For the underprivileged groups in the community, the Group provides free or discounted water supply and it actively participates in all kinds of public welfare and charitable undertakings, such as providing voluntary services to nursing homes, taking care of left-behind children, paying respects to veterans, visiting families in difficulties, initiating donation of funds and necessities. In addition to creating a good atmosphere of common concern for the underprivileged groups in the community, we have also greatly enhanced the sense of fulfillment and happiness of the residents (B8.1/B8.2).



The supreme good resembles water, which nourishes all things without trying to. It is content with the low places that people disdain. Thus it is like the Tao. Living up to its core values, China Water is water-oriented and has kindness in heart. We eventually take the lead in the industry after over a decade of focused operation. Driven by the strategy of "dual integration", China Water has obtained fruitful results in steadfastly implementing environmental improvement and practicing cooperative development of society, and is now promoting group-wide green operations. Facing future challenges head on, our unlimited potential on the inside will enable us to surge forward in high spirit. We take the bit between our teeth and will continue to fulfill our corporate mission with a strong sense of environmental and social responsibility.



香港聯交所《環境、社會及管治報告指引》內容索引

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Note 1: Not meaningful

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報告概況

Report Overview

This report sets out a systematic review and overview on China Water Affairs Group Limited's implementation of its corporate governance initiatives and performance of its environment and social obligations.

Reporting period:

1 April 2019 to 31 March 2020.

Basis of preparation:

Prepared in accordance with the ESG Reporting Guide of Appendix 27 to the Main Board Listing Rules of the Hong Kong Stock Exchange and the Sustainability Reporting Guidelines ("G4 Guidelines") issued by Global Reporting Initiative.

Publication:

This report is prepared in both Chinese and English, which is published on China Water's official website.

<http://www.chinawatergroup.com>

We sincerely invite feedbacks and recommendations from various parties (readers) regarding the report and the environment, social and governance initiatives of China Water. Please contact us via the following means:

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