



DCWT 滇池水务

KUNMING DIANCHI WATER TREATMENT CO.,LTD

Kunming Dianchi Water Treatment Co., Ltd.
昆明滇池水务股份有限公司

(A joint stock company incorporated in the people's republic of china with limited liability)

Stock Code: 3768

臻於至善 源遠流長

CONSUMMATION AND SUSTAINABILITY

2016

Environmental, Social and
Governance Report

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1. ABOUT THIS REPORT

Since its inception, Kunming Dianchi Water Treatment Co., Ltd. (hereinafter referred to as “**Dianchi Water**” or the “**Company**”) has been adhering to the operational strategy of “prioritizing core business while promoting diversified development”. The Company extended the industrial chain, from wastewater treatment to reclaimed water utilization, sludge resource utilization, running water supply, aquatic biotechnology, pharmacy, and other related sectors, with operations gradually expanding to atmospheric pollution treatment, soil restoration, clean energy development and other areas of “Macro Environmental Protection”.

This report is the first social, environmental and governance report of Dianchi Water. Based on the principles of objective, regulatory, transparent and comprehensive, the Company has prepared this report in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) of the Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”). The Company expects that this report enables general investors to further understand the Company’s efforts in environmental, social and governance aspects, so as to improve its sustainable development management system and achieve sustainable development.

This report covers the period from January 1, 2016 to December 31, 2016.

After approval from the management, the report was passed by the Board of Directors on July 26 2017.



2. COMPANY PROFILE

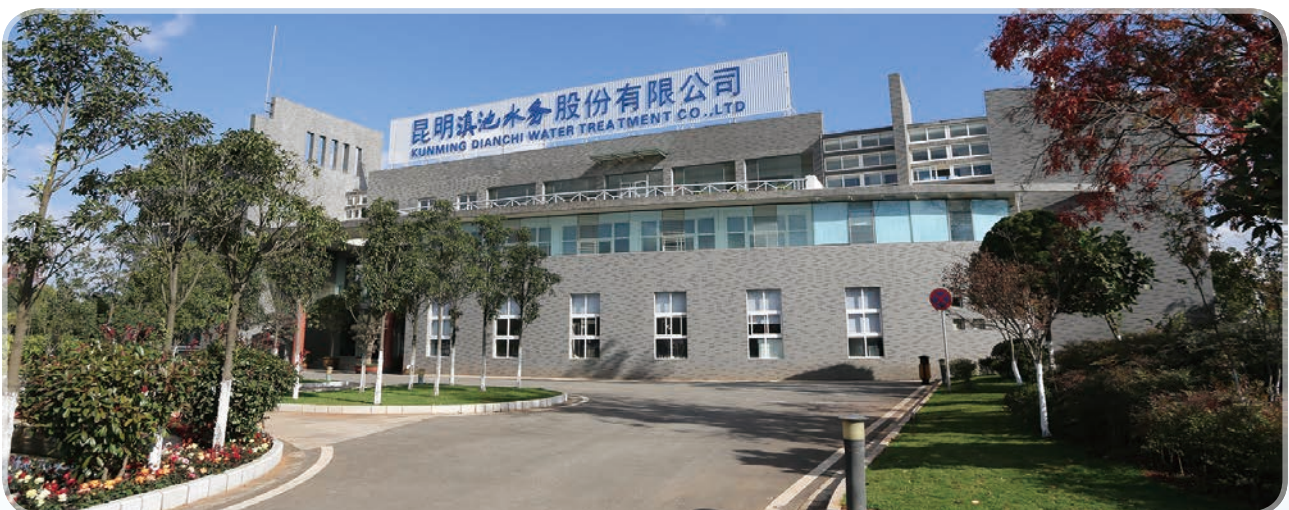
On December 23, 2010, to promote the commercial operation and market liberalization of wastewater treatment in Kunming and with the approval of the Kunming Municipal Government, Kunming Dianchi Water Treatment Co., Ltd. was jointly founded by five state-owned enterprises: Kunming Dianchi Investment Co., Ltd., Kunming Development Investment Group Co., Ltd., Kunming Industrial Development & Investment Co., Ltd., Kunming State-owned Assets Management and Operations Co., Ltd., and Kunming Xindu Property Co., Limited. The Company was granted a 30-year concession covering wastewater treatment in administrative areas of Kunming in 2011 by the Kunming Municipal Government. The Company follows the strategy of “self-invigoration through science and technology, talent and culture”, and continues to make solid progress in reform, innovation, transformation and growth. On April 6, 2017, the Company was listed on the Hong Kong Stock Exchange, with stock code 03768.

As at December 31, 2016, the Company had 17 wholly-owned subsidiaries, one holding subsidiary and 3 jointly-held subsidiaries. Its total assets and net assets amounted to approximately RMB4.6 billion and RMB2.5 billion respectively. The assets and operating revenue both saw positive growth trends, with steadily increasing profits and cash flow. At present, the number of water purification plants operated, entrusted, under construction or slated for construction by the Company is 39, with a total wastewater treatment capacity of nearly 2.2 million m³ per day. The effluent quality of the facilities located in the main urban districts of Kunming exceeds the most stringent emission standards for effluent emissions by other Chinese municipal wastewater treatment plants. The Company operated the sole reclaimed water distribution system in Kunming and its reclaimed water supply output

achieved steady growth year by year, with approximately more than 300 company subscribers and a wide usage in landscaping, road cleaning, industrial production and replenishment of rivers and watery areas. The Company’s running water business has developed rapidly, with 4 plants in operation or under construction, 2 more plants under planning and construction in Yunnan Province and Laos.

Based on the operational strategy of “prioritizing core business while promoting diversified development”, the Company extended the industrial chain, from wastewater treatment to reclaimed water utilization, sludge resource, running water supply, aquatic biotechnology, pharmacy, and other related sectors. Expanding by means of asset acquisition, equity investment, public-private partnership (PPP) and others, in wastewater treatment and other relevant diverse businesses, the Company has obtained 20 concessions and has extended its operation coverage to Yunnan Province, Guizhou Province, Anhui Province, Zhejiang Province, Jiangsu Province, Laos, and other regions in Southeast Asia.

“Consummation and Sustainability”. Currently, with Yunnan Province positioning itself at the forefront of development of an ecologically-sustainable society and as the regional pivot for South and Southeast Asia, the Company sees more opportunities for rapid development. With the support of governments of all levels and various sectors of the community, the Company will seize these new opportunities and make effort to reinvent itself as a hi-tech, knowledge and skill-intensive environmental protection enterprise, so as to provide Kunming, Yunnan Province and other markets with fundamental support and specialized services for the environmental protection, the development of an ecologically-sustainable society, and the region’s socioeconomic development.



3. SUMMARY IN 2016

(1) BUSINESS SUMMARY

The Company is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, a provider of integrated water-related services (including running water supply service) in water industry, and one of the major enterprises under the State's strategic objective for pollution treatment in Dianchi Lake.

During the Reporting Period, the utilization rate of our facilities was above the industry average and the volume of wastewater treated maintained a high level. As of December 31, 2016, the average facility utilization rate reached 92.8%.

1. Wastewater Treatment Projects

As of December 31, 2016, Dianchi Water had in operation a total of 26 wastewater treatment plants, of which 13 are in Kunming and 13 are in other parts of China, with a total wastewater treatment capacity of 1.54 million m³ per day. In addition, Dianchi Water had under our management services facilities with a total designed wastewater treatment capacity of 0.5 million m³ per day. With its technologically advanced facilities, independently developed patents and strong management skills, the Company

has been able to maintain low costs while providing high quality wastewater treatment services. As of December 31, 2016, 93.7% of our designed wastewater treatment capacity reached the National Class 1 Standard A standard.

2. Reclaimed Water Business

For our reclaimed water business, as of December 31, 2016, Dianchi Water had 6 of its wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 44,000 m³. The production of its reclaimed water supply business has increased year by year from 2014 to 2016.

3. Running Water Business

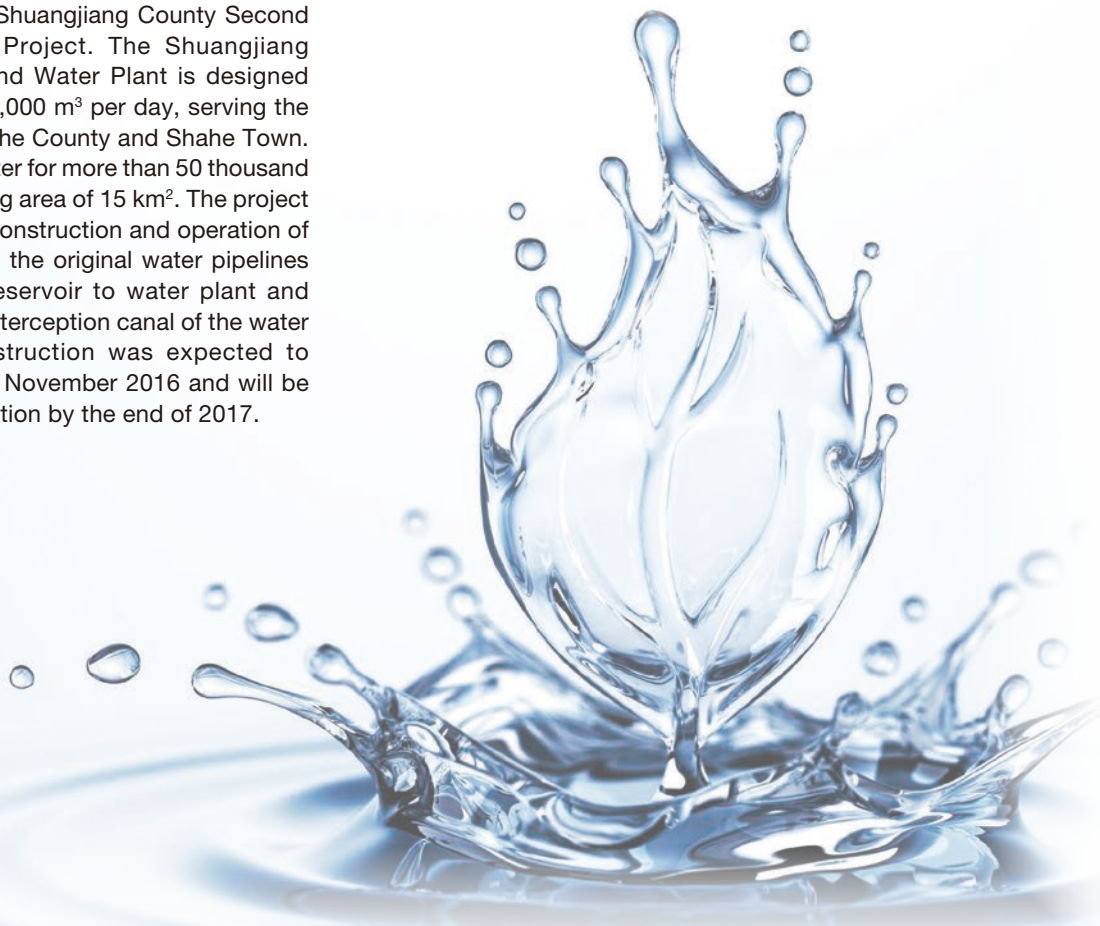
For our running water business, as of December 31, 2016, Dianchi Water had 3 running water plants in operation in Yunnan Province, the PRC, 1 running water plant under construction and 1 running water plant under development in Yunnan Province, the PRC, and 1 running water plant under development in Laos. During the Reporting Period, the annual sales volume of running water was nearly 4.75 million m³.



3. SUMMARY IN 2016

(2) BUSINESS DEVELOPMENT

1. On January 11, 2016, Dianchi Water and Ziyun County People's Government, Anshun City, Guizhou Province jointly held the signing ceremony of the concession project acquisition of Ziyun County Sewage Treatment Plant. Ziyun County Sewage Treatment Plant was established and put into operation in 2010, with designed sewage treatment capacity of 4,000 m³ per day. It adopted oxidation ditch technique and executed Class I Standard B standard of the Discharge Standards of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002).
2. After several site visits and negotiations between the Company and Shuangjiang Autonomous County People's Government, Lincang City, on May 13, 2016, the Company and the Shuangjiang Autonomous County People's Government held the signing ceremony of Shuangjiang County Second Water Plant Project. The Shuangjiang County Second Water Plant is designed to process 10,000 m³ per day, serving the main area of the County and Shahe Town. It supplies water for more than 50 thousand people, serving area of 15 km². The project includes the construction and operation of a water plant, the original water pipelines connecting reservoir to water plant and the sewage-interception canal of the water source. Construction was expected to commence in November 2016 and will be put into operation by the end of 2017.
3. On October 30, 2016, at the signing ceremony, Dianchi Water entered into a cooperative agreement with Jiangsu Tianying Water Development Co., Ltd. ("**Jiangsu Tianying**") and Jiangsu Tianying Saite Environmental Protection Energy Co., Ltd. (江蘇天楹賽特環保能源集團有限公司, "**Jiangsu Tianying Saite**") in Haian County, Nantong City, Jiangsu Province. According to the agreement, the 100% equity interest of 3 sewage processing projects under Jiangsu Tianying Saite, Hai'an Qutang (海安曲塘), Hai'an Libao (海安李堡) and Hongze Tianying (洪澤天楹), was acquired by Dianchi Water, with a total designed processing capacity of 60,000 m³ per day. Phase I has completed, with processing capacity of 50,000 m³ per day. As a result, Dianchi Water successfully expanded its business in Jiangsu.



4. In November 2016, with the approval of investment and construction of a sewage treatment and running water project in the Golden Triangle, Laos, and according to the Enterprise Law of Laos, and after verifying by the industrial and commercial registration authorities in Golden Triangle, Laos, the Company established Dianchi Water (Laos) Wholly-owned Limited Company (滇池水務(老撾)獨資有限公司), with business scope covering running water supply, sewage treatment, construction of sewage treatment plant, waste disposal (and investment, operation and management of related facilities). The Company also set up bank accounts in the Golden Triangle of Laos to speed up the promotion of local project investment and construction and later operation management process.

5. On November 30, 2016, approved by the Kunming Municipal People's Government, Yin Jiaping, Director of Kunming Dianchi Administration Bureau, on behalf of the Kunming Municipal People's Government, entered into the Kunming Sewage Treatment Franchise Agreement (Supplementary Agreement) and the Operation and Maintenance Consignment Agreement of the Domestic Sewage Treatment and Management Facilities in Towns and Villages along Dianchi Basin and Niulanjiang Water Replenishment (Kunming Area) with Guo Yumei, Chairman of Dianchi Water Treatment Co., Ltd. According to the Kunming Sewage Treatment Concession signed by the Dianchi Water in 2011, its service area was extended to "water purification of the sewage and wastewater generated during the production and daily life in municipalities, towns and villages under the jurisdiction of Kunming City", unifying the operation and maintenance on 885 sewage treatment facilities in villages, and 20 sewage treatment stations in towns under Kunming, which would effectively promote the development of urban and rural integration of Kunming's sewage treatment industry, comprehensively boost the domestic sewage treatment in rural areas of Kunming, and drive the service extension of Dianchi Water in towns and villages.

A. ENVIRONMENT

Since its inception, Dianchi Water has been adhering to the operational strategy of "prioritizing core business while promoting diversified development". The management goals of the Company are "focusing on quality, devoting ourselves to environmental protection, and attaching great importance to occupational health and safety". The Company not only protects resources and the environment through carrying out green business, but also plants green living idea in the mind of our employees which are carried through in every process of our production and operation.



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In addition to GB/T24001-2016 Environmental Management System Requirements and Guidelines (《環境管理體系要求及使用指南》), GB/T19001-2016 Quality Management System Requirements (《品質管制體系要求》) and Administrative System Requirements on Occupational Health and Safety (《職業健康安全管理体系要求》), combined with the characteristics of the Company, Dianchi Water implements and executes its internal standardized management system to reduce the impact of waste, wastewater, exhaust gas, noise on the environment, so as to implement green office practices and promote green development through our own efforts and inconspicuous actions. The Company keeps paying attention to environmental policies and information, and helps its staff comprehend the latest applicable environmental laws and regulations, policies, industry trends and domestic and international best practices in the industry through our internal management procedures. During the Reporting Period, no violation of the environment-related laws and regulations has been found on the Company.

A1. Emissions

As an enterprise that engages in pollution control and environmental protection, the Company has always ensured that all aspects of production comply with

the corresponding environmental laws, regulations and policies. The Company takes sustainable development as its guiding principle and takes into account of the impact of projects on the environment into consideration for its business decision-making, instead of solely pursuit of economic efficiency. The Company pays attention to the harmonious coexistence of human and nature.

The municipal water industry in the PRC enjoys strong and sustained government support. The PRC government introduced a series of incentive policies, including the 13th Five-Year National Urban Wastewater Treatment and Recycling Facilities Construction Plan (《「十三五」全國城鎮污水處理及再生水利用設施建設規劃》) that promulgated in December 2016. The plan requires the municipal sewage treatment rates in cities and towns by 2020 to reach 95% and 85% respectively. In addition, the Outline of the 13th Five-Year Plan for National Economic and Social Development (《國民經濟和社會發展十三五規劃綱要》) regards the environmental protection industry as one of the key future development areas. The Circular on Promoting Water Pricing Reform for Water Conservation and Water Resources Protection (《關於推進水價改革促進節約用水保護水資源的通知》) and the Guidance on Accelerating the Construction and Completion of Urban Residents' Tiered Water Pricing System (《關於加快建設完善城鎮居民用水階梯價格制度的指導意見》) urge the government departments to implement the tiered water pricing system, so as to enhance the profitability of municipal water service providers. The Implementation Opinions of Promoting Cooperation between the Government and Social Capitals in Preventing and Treatment of Water Pollution (《關於推進水污染防治領域政府和社會資本合作的實施意見》) stipulates that cooperation should be promoted between the government and private enterprises in sewage treatment industry.

According to the Action Plan for Preventing and Treatment of Water Pollution (《水污染防治行動計劃》), hereinafter referred to



as “10 Regulations on Water Pollution”), the PRC should speed up the construction and renovation of urban sewage treatment facilities. The urban sewage treatment facilities in sensitive areas (key lakes, key reservoirs and coastal water collection areas) should reach Class I Standard A standard by the end of 2017. For cities whose build-up areas’ water body and water quality do not reach surface water IV standard, their newly-built urban sewage treatment facilities should implement Class I Standard A standard. Our sewage treatment plant in Dianchi Lake Basin has completed upgrading and reconstruction in 2011 and its effluent quality has reached Class I Standard A standard.

Within the scope of the Company’s business, all the emissions are processed in strict accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Discharge Standard of Urban Sewage Treatment Plants (《城鎮污水處理廠排放標準》) (GB18918-2002), the Evaluation Standard of the Operating Performance of Urban Sewage Treatment Plants (《城鎮污水處理廠運營品質評價標準》) (CJJ/T228-2014) and other relevant regulations, and standards.



1. Exhaust gas

The Company continues to innovate the processing technologies and improve the production management system. As for the bad odor generated in the sewage treatment process, the Company firstly conducts regular monitoring to strictly monitor the emissions. At the same time, the Company strengthens the greening effect of its plants and adds more plantings around where odors generated. Biological treatment facilities are set to collect the odor for biological treatment, to meet emission standards approved by the State.

The Company introduces advanced international technologies to dispose harmful gases generated in the sludge disposal process, and strictly monitors to ensure the removal of harmful ingredients and meeting the discharge standard.

2. Wastewater

The Company’s main business is sewage treatment, operation of water supply facilities, reclaimed water utilization, etc. The Company helps its projects in various operating locations complete their annual emission reduction goals, which received recognition and praise from governments at all levels. Wastewater generated in its operation include domestic sewage, backwash water of equipment and some water for forestation in our plants. All these wastewater will be transferred to sewage treatment plants collecting either by circulation networks or by municipal pipe network and then discharged if they meet discharge standard after treatment.

3. Other wastes

For the various types of waste generated in the production and operation processes, the Company has developed a sound management

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system, taken effective measures to reduce emissions, and disposed of them properly.

As for the main solid wastes and sludge generated in the primary business process, the Company requires the disposal process is in strict accordance with national policies and regulations, industry standards. The Company has also established strict testing indicators and frequency system, and comprehensive measurement, transportation and disposal management system, to ensure that the sludge treatment process is in line with national standards and norms.

As for the waste oil produced during the operation of machinery and equipment, the Company examines the waste liquids. According to the national policies and regulations and industry standards, the Company has developed a special disposal program and commissioned qualified third-parties to dispose of the waste liquids.

As for the solid waste generated in the daily office process, the Company firstly enhances the awareness of our staff, and actively participates in the national annual energy conservation publicity week, and irregularly carries out conservation awareness trainings, conservation knowledge contests and other activities. Secondly, the Company strengthens the propaganda of energy conservation measures. Thirdly, in the management process of office consumables, the Company encourages the use of renewable resources, formulates special provisions, standardizes the management of the use of these consumables and the disposal of wastes.

A2. Use of Resources

Dianchi Water is a leading wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, a provider of integrated water-related services, including running supply services, in the water industry and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

The Company conducts daily monitoring on energy, water and other raw materials and arranges monthly statistical analysis on their consumption. The Company formulated a target evaluation mechanism at the beginning of the year, and strived to improve its resource utilization rate by adopting strict process supervision.



1. *Energy consumption*

Electricity costs account for a large part of the production costs of water enterprises. Kunming Power Supply Bureau of Yunnan Power Grid Co. is an electric utility company in Kunming who provides power for the Company's operations.

In order to increase energy utilization rate, the Company, supported by the platforms designed specially for water projects under the 12th Five-Year Plan, carried out technological transformation on energy saving and consumption reduction in respect of key devices with large energy consumption and low efficiency, including lifting pump, air blower, aeration system and sludge dewatering system. The average energy consumption rate decreased 17.2% from 0.29 kWh/m³ in 2012 to 0.24 kWh/m³ in 2016, translating into an average cost saving of RMB11.7 million per year. Pursuant to the Several Opinions of the Central Committee of the Communist Party of China and the State Council on Further Deepening the Reform of the Electric Power System (Zhong Fa [2015] No. 9) (《中共中央國務院

關於進一步深化電力體制改革的若干意見》(中發[2015]9號)), Reply from the NDRC Regarding the Proposal on the Reform of the Transmission and Distribution Electricity Price of Yunnan Power Grid (Fa Gai Jia Ge [2015] No. 2260) (《國家發展改革委關於雲南電網輸配電價改革試點方案的批覆》(發改價格[2015] 2260 號)), Proposal to Further Deepen the Reform of the Electric Power System in Yunnan Province (Yun Fa [2016] No.10) (《雲南省進一步深化電力體制改革試點方案》(雲發[2016]10號)), the Company actively conducted power marketization transactions, and gave priority to wind electricity and electricity supplied by hydropower plants, which not only used clean energy, but also reduced its electricity cost. The electricity cost of the Company decreased by approximately RMB10 million in 2016.

The Company encourages all its staff to save energy during work hours, planting the concept of energy saving into their minds. The Company also encourages its staff to use electric vehicles fueled by clean energy and public transport.



2. *Water consumption*

The Company requires all the factories (except their canteens and office areas) to use reclaimed water to clean and cool down production equipment if permitted and to water plants. The Company put significant efforts on the promotion and popularization of the use of reclaimed water and took water conservation measures, such as adopting induction taps for the wash basins in office areas and washing rooms, to save every drop of water.

The Company has Kunming's only reclaimed water distribution system in the main urban area, and the production of the reclaimed water supply business has increased year by year. The Company's reclaimed water, which has been widely used for landscaping, cleaning roads, industrial production and recharging riverway and waterscape, has approximately 300 company subscribers. As of December 31, 2016, Dianchi Water had 6 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 44,000 m³. Customers of Dianchi Water's reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming.

The raw water of the Company's water supply business is obtained from water sources designated by local governments. Therefore, we do not have any water sourcing issues.

A3. *Environment and Natural Resources*

The Company performs environmental impact assessment on all the projects constructed according to the relevant laws and regulations of the PRC. The Company applies "simultaneous design, construction and operation" acceptance check as required after a project has been put into operation to ensure that the construction and operation of the project meet the requirements of the relevant laws, regulations and policies.

For wastewater treatment, the principal business of the Company, with the support of its R&D departments, the Company further lowered our effluent quality indicators and improved its waste removal efficiency by adopting measures such as technical innovation and process and operation optimization. For example, after applying its proprietary technologies, for its Kunming No. 1 Water Purification Plant, which uses the oxidation ditch process, effluent COD (Chemical Oxygen Demand) level decreased by 51.6%, NH₃-N (Ammonia nitrogen in the form of Water with free ammonia (NH₃) and Ammonia ion (NH₄⁺)) level decreased by 81.3%, TN (Total nitrogen) level decreased by 35.0%, TP (Total phosphorus) level decreased by 33.3% and BOD (Biochemical Oxygen Demand) level decreased by 45.9% from 2012 to 2016; for our Kunming No. 2 Water Purification Plant, which uses the A2/O (Anaerobic – Oxygen – Hypoxia) process, energy consumption decreased by 35.3%, effluent COD level decreased by 52.2%, NH₃-N level decreased by 50.0%, TN level decreased by 13.7%, TP level decreased by 17.6% and BOD level decreased by 27.8% from 2012 to 2016. As a result of our technological research and



development, the overall effluent quality of our facilities in Kunming main city area improved significantly: COD decreased by 53.8%, TP by 44.4%, NH₃-N by 63.8%, TN by 27.4% and BOD by 42.8% from 2012 to 2016, which greatly reduced the pollution load brought by the tail water from wastewater treatment plants to natural water. As of December 31, 2016, 93.7% of the Company designed wastewater treatment capacity reached the National Class I Standard A standard.

For pollution sources that produce noises during the production process, such as fan equipment, the Company has taken measures such as installing blimps to reduce their impacts on surrounding environment. The Company strictly implements a running time from 8:00 a.m. to 10:00 p.m. for the dehydration machine rooms in its factories close to residential areas while night running is strictly forbidden, so as to minimize the impacts on environment. At the same time, the Company has a well-established testing system to obtain noise level which will be used to guide its production.

B. SOCIAL

Dianchi Water strictly abides by applicable laws and regulations on labor protection to guarantee equal employment. We are against any recruitment discrimination concerning age, marital status, race, social status, religious belief, disability, gender, sexual orientation or political background etc.

Dianchi Water guarantees equal opportunity and fair treatment for all level of staff and job applicants in recruitment, internal transfer, training, promotion, performance evaluation and remuneration. Besides,

we have the same remuneration structure for both male and female staff.

Dianchi Water provides training to promote ethical standard and provide complaint channels to allow our staff to make a confidential complaint. Through staff participation, training, reward and other promotion activities of safety awareness, we provide our staff with a healthy and safe working environment. We also provide safety equipment to staff and organize regular physical examinations for our staff in order to prevent them from occupational harm and occupational diseases.

B1. Employment

Dianchi Water is an enterprise which values core technology, aspiration and social responsibility. We attach importance to team construction and employee's virtues and ethics, introduce talents by multiple channels and cultivate talents by using incentive mechanism. We have comprehensive human resources policies covering recruitment, remuneration, staff welfare and performance etc. Dianchi Water strictly abides by applicable laws and regulations on labour protection to guarantee equal employment. The Company is against any recruitment discrimination concerning age, marital status, race, social status, religious belief, disability, gender, sexual orientation or political background etc.

Dianchi Water guarantees equal opportunity and fair treatment for all level of staff and job applicants in recruitment, internal transfer, training, promotion, performance evaluation and remuneration. Besides, we have the same remuneration structure for both male and female staff.



4. YEAR OF 2016

Recruitment

Dianchi Water carries out open recruitment to encourage fair competition, makes overall assessment and recruitment on a selective basis. We sign labour contracts with employees in accordance with labour laws and regulations to effectively protect rights and interests of employees.

Retirement Schemes

Dianchi Water participated in a social pension scheme established by the PRC government. The Company are required to contribute a certain percentage of the relevant employees' salaries to the social pension scheme. The Company also set up a corporate annuity system for purchase of supplementary retirement insurance



Remuneration

Dianchi Water has established a competitive salary system based on the importance of an employee's position and by reference to the operating strategy of the Company and the industry and the region's salary level. Besides, the Company strictly follows relevant national laws and regulations and continuously improves the staff welfare, pays various statutory social insurances according to the laws and regulations and ensures that the staff are entitled to statutory holidays, paid annual leaves, marriage leaves and maternity leaves.

In terms of performance assessment, Dianchi Water has built a result and goal oriented employee performance appraisal system covering various aspects, such as the performance, ability and attitude etc. of the staff. The promotion and salary review of staff is determined by the result of that appraisal appropriately. In order to create a healthy, diversified and harmonious working environment, all the matters concerning promotion, salary review and post transfer will be considered in an objective way according to staff performance and the business condition of the Company. During the Reporting Period, Dianchi Water was not aware of any material non-compliance cases in relation to human resources laws and regulations.

for our staff. The Company calculates the interest so attributed under the agreed percentage of annuity plan based on staff's service years upon their retirement. Save as disclosed above, Dianchi Water was not required to operate any other retirement benefits for its employees during the year.

Staff Benefits

In addition to statutory employee benefits for full time staff including social security scheme, marriage leave, maternity leave, paternity leave and funeral leave, Dianchi Water offers different fringe benefits, for instance, festival bonus, work allowance under special conditions, labour protection, working meal and commuter allowance. Dianchi Water also purchases accident insurance and provides additional hospitalization medical insurance for our employees.

B2. Health and Safety

Dianchi Water has certified to quality, environmental and occupational safety management system standards in 2013, and sets up a safety management system in accordance with state regulations including the Fire Protection Law of the People's Republic of China, the Production Safety Law of the People's Republic of China, the Environmental Protection Law of the People's Republic of China, the Law of the

People's Republic of China on the Prevention and Control of Occupational Diseases and the Special Equipment Safety Law of the People's Republic of China. It prepares and implements Comprehensive Rescue Plan in Case of Production Accidents (《生產安全事故應急救援綜合預案》) and Emergency Response Plan in Case of Accidents (《安全事故應急預案》). With such system and plans, the Company aims to identify and address issues arising in the course of production safety management.

During its day-to-day operation, every level of employees hold responsible for production safety. The Company conducts safety checks on a regular basis to eliminate any hidden danger, and arranges regular lectures on production safety and utilization of fire-fighting facilities. By doing so, the Company manages to prevent production accidents and create a safe working environment for all employees.

B3. Development and Training

Dianchi Water really cares about growth and development of employees and establishes a scientific training mechanism. It makes training plans according to employees' job categories and duties and responsibilities, and ensures smooth execution of these plans. Benefiting from the positive role of trainings and the support from the Company, employees achieve continuous progress and growth. Trainings offered by the Company include on-boarding training, business training and continuous development training.

On-boarding training: To help new employees adapt themselves to a new environment within a short period of time, the Company arranges orientations for new employees, introducing corporate culture, internal rules and regulations.

Business training: Employees attend various kinds of trainings on a regular basis for better fulfilling their job duties, which include professional trainings such as wastewater treatment process, water quality testing and test result analysis skills.

Continuous development training: The Company provides employees with complete training schemes, which are specially designed for each job category and aim to help employees realize growth, achieve personal fulfillment and contribute to corporate growth and development.

Dianchi Water offers safety trainings to enhance business skills and safety awareness of its employees, and arranges emergency drills to strengthen coping capacity of employees in case of production accidents. During the Reporting Period, Dianchi Water did not have any breach of laws and regulations in relation to workplace health and safety. Dianchi Water provides employees with trainings to ensure compliance with ethical standards, and establishes appeal channels for employees to make appeal under privacy protection. Dianchi Water is committed to building a healthy and safe working environment by various means, including employee participation, trainings, rewards granting and other safety promotion activities. In addition, Dianchi Water offers labor protection articles and enrolls employees into periodical health checks every year, protecting employees from occupational risks and diseases in day-to-day operation.



4. YEAR OF 2016



B4. Labor Rules

Prohibition of Employing Child Labor or Forced Labor

Dianchi Water strictly follows state and local regulations regarding recruitment and hire of employees, and will not hire applicants who fail to meet requirements set out in relevant laws and regulations. In addition, Dianchi Water conducts reference check on employees basing on information provided, and those who are found to have treated will not be hired. The Company sticks to a human resource policy that highlights gender equality and ethnic equality, and prohibits employment of child labor and forced labor. During the Reporting Period, Dianchi Water did not have any breach of laws and regulations that impose ban on employment of child labor and forced labor.

B5. Supply Chain Management

Principal suppliers of Dianchi Water are power suppliers who provide electricity to its facilities, construction contractors who designed and constructed its facilities and suppliers of raw materials including wastewater treatment chemicals and other equipment maintenance replacements. Dianchi Water has been working with its major suppliers for a period ranging from one to more than five years.

During the Reporting Period, Kunming Power Supply Bureau of Yunnan Power Grid Co. was the largest supplier of Dianchi Water. Purchases from the largest supplier amounted to RMB74.9 million, accounting for approximately 35.1% of total purchases. During the Reporting Period, Dianchi Water made RMB147.4 million worth of purchases from its top five suppliers, which accounted for approximately 69.1% of total purchases.

Kunming Power Supply Bureau of Yunnan Power Grid Co., is the electric utility company in Kunming providing power for operations of the Company. During the Reporting Period, other major suppliers of Dianchi Water included construction contractors such as the Shanghai Civil Engineering Co., Ltd. of CREC, Yunnan Junfeng Construction Engineering Co., Ltd. and Yunnan Jingsheng Construction Engineering Co., Ltd. (which were responsible for certain



parts of the Company's projects), and raw materials providers such as Kunming Yuegaogongmao Co., Ltd., Kunming Zunfan Chemical Products Co., Ltd., Shenzhen Pufeisi Environment and Technology Co., Ltd., Kunming Zhouyi Environment and Technology Co., Ltd. and Shenzhen Zhiyuanda Environmental Protection Equipment Co., Ltd. (which offered wastewater treatment chemicals and other equipment maintenance replacements).

All of the five largest suppliers of Dianchi Water are independent third parties based in China, and none of Directors, their associates or any Shareholder (to the knowledge of Directors, owned more than 5% of the Company's share capital as of the Latest Practicable Date) had any interest in any of the five largest raw material and equipment suppliers during the Reporting Period. Dianchi Water did not enter into any long-term agreements with its major suppliers during the Reporting Period.

Except for utility service providers, the Company has established a centralized procurement policy for selected suppliers. Under such policy, Dianchi Water subsidiaries are required to solicit bids from different suppliers, and select the suppliers based on price, quality, and timely delivery of products. All supply contracts will be required to be reviewed and approved by the headquarters which will conduct periodic tests to check the quality of the delivered products.

Dianchi Water has sourced raw materials from a few local suppliers in proximity to Kunming in order to benefit from the economies of scale and easy transportation, which allowed faster and cheaper delivery of raw materials. Dianchi Water generally pays its suppliers within 10 to 15 days after receiving the delivery of goods, subject to internal review and approval. For its major suppliers, Dianchi Water often settles accounts on a monthly basis; as at December 31, 2016, Dianchi Water did not have any overdue payments.

Dianchi Water have readily available alternative suppliers in the market who offer similar materials with terms comparable to its existing suppliers. To mitigate the risks associated with any reliance on its major suppliers, the Company periodically seeks potential alternative suppliers and obtains quotations from such suppliers with the view to keeping in contact with potential suppliers. In addition, in order to secure reliable supply channels and ensure the quality of supplies, in December 2015, Dianchi Water acquired 51% interest in Kunming Heertai Environmental Industry & Trade Co. Ltd., a producer of water treatment chemicals, from which Dianchi Water intends to procure a majority of chemicals in the future. As at December 31, 2016, Dianchi Water has not experienced any material difficulty in obtaining any utility services, construction services, or supplies of raw materials or equipment for its business operations.



4. YEAR OF 2016

B6. Product Responsibilities

The Company attaches great importance to product quality. With reference to its own conditions, it sets up an internal standardization management system on basis of GB/T24001-2016 Environmental Management System – General Guidelines on Implementation (GB/T24001-2016《環境管理體系要求及使用指南》), GB/T19001-2016 Quality Management System – Requirements (GB/T19001-2016《質量管理體系要求》) and GB/T28001-2011 Occupational Health and Safety Management System – Requirements (GB/T28001-2011《職業健康安全管理体系要求》).

Each key process in the course of production is under real-time data monitoring, and relevant data are transferred directly to the central monitoring system of each plant and to the monitoring platform of the Company. Operators strictly execute the Standardized Operation Manual (標準化運行手冊) which has been adapted under the “one manual for one plant” principle that highlights respective conditions of each plant, thus ensuring smooth operation of each process. The Company also monitors inlet and outlet water quality. Daily water quality monitoring is entrusted to environmental monitoring companies with CMA (China Metrology Accreditation) certificates. Every day, water sample is tested in the morning, and test report is issued in the afternoon. Therefore, the Company obtains feedback timely and is able to make production instructions, thus ensuring that outlet water meet discharge standards. Furthermore, the

Company has an online monitoring system which monitors inlet and outlet water quality for 24 hours per day. Monitoring data are transferred simultaneously to municipal and provincial-level comprehensive monitoring and management platforms on pollution sources. Wastewater after treatment meets requirements as set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002) (《城鎮污水處理廠污染物排放標準》(GB18918-2002)).

B7. Anti-corruption Efforts

The Company attaches great importance to cleansing Party construction and anti-corruption efforts in strict observance with relevant laws, regulations and regulatory requirements, and has been always taking zero-tolerance attitude toward preventing and combating corruption by ways of external supervision, improving the internal anti-corruption systems and putting in place the long-acting anti-corruption mechanism within the Company. **First**, the Company enters into annual agreement with the relevant regulatory authorities setting out the work targets and responsibilities of the Company in cleansing Party construction and anti-corruption, whereby the regulatory authorities, through supervision and inspection, exert dynamic regulation over the anti-corruptions efforts of the Company; **Second**, the regulatory authorities entrust third-party to conduct economic auditing of the Company each year which will issue an audit report, whereby the regulatory authorities can make objective assessment on the anti-corruption work of the Company;



Third, the Company sets up an internal disciplinary inspection office as an in-house organ in charge of anti-corruption, which is equipped with dedicated staff to conduct cleansing party construction and anti-corruption; **Fourth**, the Company establishes and keeps improving the long-term mechanism for anti-corruption, whereby the corruption could be effectively put under control through the establishment of such institutional systems in preventing and combating corruptions; the anti-corruption work is devolved to each level within the Company through entering into the internal agreements setting out the work targets and responsibilities in cleansing Party construction and anti-corruption; the effective supervision could be achieved throughout the Company through internal inspection and smoothening the whistle-blowing channels against corruption; and the employees' awareness to prevent corruption risks is enhanced through internal education of the Company in cleansing Party conduct, thus consolidating the basis for anti-corruption.

Through the effective supervision and regulation of the relevant regulatory authorities and the establishment and on-going improvement of its internal anti-corruption mechanism and systems, the Company has made anti-corruption as the norm within the Company.

B8. Community Investment

Robust growth of the Company is dependent on long-term support and trust from the State and the whole society. Always being grateful, we devote ourselves to building social harmony and fulfilling social responsibilities. We are committed to repaying the society via practical actions including charity activities and participation in local economic construction, and to contributing to improvement of people's life and local economic and social development. Rapport with communities lays solid foundation for corporate development. Therefore, we treasure the relationship with communities where our operation is located, and proactively perform our obligations regarding community development while

sharing community benefits. Taking account of local conditions and our own advantages, we make investment into selected projects, making proactive contribution to investment in aspects of local taxation, environmental protection and education. The Company offers job and training opportunities to local people, and purchases raw materials from local suppliers as much as possible with the view of supporting local economic development.

