



昆明滇池水务股份有限公司

Kunming Dianchi Water Treatment Co., Ltd.

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

Stock Code: 3768

2017

Environmental, Social and
Governance Report

臻於至善 源遠流長

CONSUMMATION & SUSTAINABILITY

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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 its industrial chain from wastewater treatment to reclaimed water utilization, sludge resource utilization, running water supply, aquatic biotechnology, pharmaceutical production and other related sectors, with operations gradually expanding to atmospheric pollution treatment, soil restoration, clean energy and other “macro-environment protection” areas.

Based on the principles of objectivity, compliance, transparency and adequacy, 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**”). We hope this report would allow investors to better understand the Company’s performance in environmental, social and governance aspects, so as to improve its management system and efforts in promoting sustainable development.

This report focuses on the core businesses of the Company and its subsidiaries. This report covers the period from January 1, 2017 to December 31, 2017 (the “**Reporting Period**”). After approval from the management, the report was passed by the board of directors on July 18, 2018.



2. COMPANY PROFILE

Kunming Dianchi Water Treatment Co., Ltd. is a state-owned listed company listed on the Hong Kong Stock Exchange (stock code: 03768.HK). As of December 31, 2017, it had total assets of approximately RMB6.025 billion and net assets of approximately RMB3.706 billion. With nearly 900 employees, the Company has 14 functional departments and 5 first-tier branches, and owns 23 wholly-owned subsidiaries, one controlled subsidiary and 3 jointly-held subsidiaries. Built around the core values of “Thriving through Technology, Talents and Corporate Culture”, the Company is an industry leader in operational management skill and technological innovation capabilities in the PRC and the largest wastewater treatment enterprise in Yunnan Province in terms of capacity with outstanding competitive advantages in brand reputation in the region.

The Company’s business and investments cover waste water treatment, water supply, reclaimed water reuse, water treatment technology research and application, ecological protection and treatment of contaminated water and other water environment-related areas, garbage disposal and sludge resource utilization and other solid waste treatment areas, clean energy, scientific research cooperation and project incubation and other relevant areas. Following the strategy of “prioritizing core business while promoting diversified development”, the Company is actively committed to expanding its geographical coverage in the global market and becoming a leading environmental protection brand in the PRC so as to provide a solid foundation and professional services for environmental protection and treatment, ecological progress and socio-economic development.



2. COMPANY PROFILE

The Company currently operates and manages a total of 64 wastewater treatment facilities with a designed capacity of approximately 2.28 million m³ per day, including 21 water purification plants located at the urban district and lake side in Kunming with a designed capacity of 1.97 million m³ per day, with average treated water quality higher than the National Class I Standard A. The treatment capacity of our plants accounts for approximately 44.2% of Yunnan Province and 95.0% of Kunming, making us the most important enterprise in terms of emission reduction of pollutants such as COD (Chemical Oxygen Demand) and NH₃-N in Yunnan Province and Kunming and water supply for scenic rivers in Kunming. The Company operates the only reclaimed water distribution system in Kunming with water quality meeting the PRC Reclaimed Water Quality Standard, the reclaimed water supply output of which has achieved steady growth year by year. For our running water business, we have 6 running water plants in operation or under construction, including one in Laos, Southeast Asia.

The Company proactively embraces and serves the national “Belt and Road” Initiative by actively tapping into relevant policies and expanding investment channels through a variety of PPP and equity partnership models such as TOT (Transfer-Operate-Transfer), TOO (Transfer-Own-Operate), BOT (Build-Operate-Transfer) and BOO (Build-Own-Operate). Leveraging on Hong Kong’s capital market platform and resource advantages, the Company has strived to accelerate the integration of shareholder resources and market resources to enable faster speed of response to business opportunities and improve its asset efficiency. Our geographical coverage has been successfully expanded to Yunnan, Guizhou, Sichuan, Hunan, Anhui, Zhejiang, Jiangsu Provinces in the PRC and Laos in Southeast Asia. The Company has extended its businesses upstream and downstream along the water treatment industry into water resources protection, catchment treatment solution, solid waste disposal and water culture industry by seeking diversified investment opportunities and optimizing investment portfolio to achieve further growth in a synergetic and efficient way.

In view of the new opportunities and challenges in new era, the Company will actively tap into the national ecological environment strategy and grasp the opportunities brought by the development of environmental protection industry. We will strive to strengthen our abilities in fund raising, financing, acquiring projects and attracting talents by coordinating industrial operation and capital operation. Leveraging on Yunnan’s unique geographic advantage and the investment opportunities brought by the “Belt and Road” Initiative, the Company will step up its efforts in expanding market share and business presence, so as to contribute to the environmental protection of the PRC with its expertise and solutions and deliver value to our shareholders, customers and the society with steady and rapid development.

3. SUMMARY IN 2017

(1) BUSINESS SUMMARY

Dianchi Water 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, 2017, the average facility utilization rate reached 93.9%.

1. Wastewater Treatment Projects

As of December 31, 2017, Dianchi Water had in operation a total of 32 wastewater treatment plants, of which 14 are in Kunming and 18 are in other parts of China, with a total wastewater treatment capacity of 1,806 thousand m³ per day. In addition, Dianchi Water had a total designed wastewater treatment capacity of 427 thousand m³ per day under its management services facilities. 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, 2017, 92.54% of our designed wastewater treatment capacity reached the National Class 1 Standard A standard.

2. Reclaimed Water Business

As of December 31, 2017, Dianchi Water had 7 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 52,000 m³. The production of its reclaimed water supply business has increased year by year from 2015 to 2017.

3. Running Water Business

As of December 31, 2017, Dianchi Water had 4 running water plants in operation in Yunnan Province, the PRC, 2 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 8.99 million m³ and the running water supply from Dianchi Water had recorded a rapid growth.



(2) BUSINESS DEVELOPMENT

1. On 18 September 2017, Dianchi Water, Liuyang Hongyu Thermal Power Co., Ltd.* (瀏陽宏宇熱電有限公司), Liuyang Hongyu Water Treatment Co., Ltd.* (瀏陽宏宇水務有限公司) (the “**Target Company**”), Zhuji Hongyu Environmental Protection Equipment Co. Ltd.* (諸暨宏宇環保設備有限公司) and Huang Weifei (the de facto controller of the Target Company, as guarantor) entered into an agreement in Kunming City, pursuant to which the Company would acquire the 100% equity interest in the Target Company.

The Target Company operates a wastewater treatment plant and a water supply plant at the Paper Industrial Base in Dayao Town under Build-Own-Operate (BOO) model. For the wastewater treatment plant, the phase I construction has been completed with a capacity of 40 thousand m³ per day, and its water discharge has reached the National Class I Category A discharge standard (GB18918-2002). For the water supply plant, it has completed construction and has been put into operation, with a capacity of 30 thousand m³ per day. The project is the first project of the Company in industrial wastewater treatment area. The completion of the project has improved brand awareness of our Company and broaden our revenue sources from principal business.

2. On 20 September 2017, Dianchi Water, Zou Han Ping (鄒漢平), Sichuan Weilai Luzhou Municipal Public Engineering Co., Ltd.* (四川未來綠洲市政公用工程有限公司) and Sichuan Debeiao Environmental Technology Industrial Co., Ltd.* (四川德貝奧環保科技實業有限公司) held a cooperation signing ceremony in Wutongqiao District, Leshan City, Sichuan Province, pursuant to which the Company agreed to acquire 100% equity interest in Leshan Debeiao Water Limited* (樂山德貝奧水務有限公司, “**Leshan Debeiao**”). Leshan Debeiao shall be responsible for the investment, construction and operation of the seven township sewage treatment plants at the Guanying town (冠英鎮), Niuhoa town (牛華鎮), Xiba town (西壩鎮) and other towns. The total scale of the three completed sewage treatment plants at (冠英鎮), Niuhoa town (牛華鎮) and Xiba town (西壩鎮) amounts to 45 thousand m³. The project has promoted the cooperation between Dianchi Water and Leshan City of Sichuan Province in respect of water resources exploitation and relevant industries and formed a new profit growth point for us.
3. On 19 December 2017, Dianchi Water held a contract signing ceremony with Dongda Water Industry Group Co., Ltd.* (東大水業集團有限公司) and Zhuji City Urban Public Transport Co., Ltd.* (諸暨市長連城鄉公交有限公司) in Zhuji City, Zhejiang Province, pursuant to which Dianchi Water acquired the 100% equity interest in Zhuji Dongdaciwu Wastewater Treatment Co. Ltd.* (諸暨市東大次塢污水處理有限公司). The designed treatment capacity of the project is 2,500 m³/day and the reclaimed volume 1,250 m³/day. Currently, the treatment volume is 1,300 m³/day and the steam supply volume 100 tons/day. The cooperation on this project has expanded the scope and market share of Dianchi Water’s industrial wastewater treatment business, and reserved talents for industrial wastewater treatment.

* For identification purpose only

3. SUMMARY IN 2017

4. According to the spirit of the Five-year Action Plan (2016-2020) of the People's Government of Yunnan Province on Further Improvement of the Living Environment of Urban and Rural Areas (《雲南省人民政府關於進一步提升城鄉人居環境五年(2016-2020年)行動計劃》) and the Action Programs of the People's Government of Yunnan Province on Sewage Treatment of Rural Areas and Construction of Water Facilities of Town Areas (《雲南省農村污水治理及鄉鎮供水設施建設行動方案》) (hereinafter referred as **"One Plan and Three Programs"**), sewage treatment facilities shall be available in almost all town and rural areas by 2020. In December 2017, Dianchi Water entered into an investment cooperation agreement with Yiliang County Jinhui State-owned Assets Operation Co. Ltd.* (宜良縣金匯國有資產經營有限責任公司), in relation to the construction of sewage and supporting facilities in town and rural areas of Yiliang, with a total project investment of approximately RMB396 million, among which, RMB136 million was intended to be allocated to town areas (including 8 towns) and RMB260 million to rural areas (including 630 villages). The project has facilitated the domestic sewage treatment in rural areas of Kunming City by extending the service of Dianchi Water's sewage treatment business in town and rural areas.
5. Under the guidance of the national "Belt and Road" Initiative, the Company has actively tapped into the South Asia and Southeast Asia investment market. On 16 October 2015, Dianchi Water entered into a water supply plant and sewage treatment plant BOT franchise agreement with the government of the Golden Triangle Special Economic Zone in Laos, in a total contract sum of RMB60 million. As of 2017, the sewage treatment plant project in Laos had completed the renovation work of its main body and was in the process of equipping its plants. It is expected that the installation work shall be completed by May 2018.



4. YEAR OF 2017

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. In addition to the compliance with 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 (《質量管理體系要求》) and GB/T28001-2011 Administrative System Requirements on Occupational Health and Safety (《職業健康安全管理体系要求》), and in light of 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

In 2017, the Chinese government listed pollution prevention as one of the three major challenges, which indicates that China's economy has transformed into high quality development stage with green development as its important symbol from high growth stage.

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 the impact of projects on the environment into consideration in its business decision-making, instead of solely pursuing economic efficiency. The Company pays attention to the harmonious coexistence of human and nature.



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”), China aims to 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. In particular, the main effluents such as Ammonia nitrogen, Chemical Oxygen Demand (COD), Total phosphorus (T-P) and Total nitrogen (T-N) were 91.8%, 79.24%, 72% and 44.73% lower than the emission limits of national Class I Standard A standard in 2017, respectively.

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質量評價標準》)(CJJ/T228-2014) and other relevant regulations, and standards.



4. YEAR OF 2017

1. Exhaust gas

During the delivery and purification of wastewater, odor generated from the turbulence of water flow, microbial reaction and sludge treatment is the main source of the exhaust gas emission of the Company. The amount of odor in the plants is small and is not the main emission of the Company. Due to the small quantity and fast dissipation and attenuation of the odor in the plants, it is difficult to measure and record its emission and thus, such data have not been disclosed in this report. Although the odor is not the main emission from wastewater treatment, in order to minimize the impact of the odor, the Company continuously optimizes the processing technologies, improves the management system of production; strengthens the greening of the plants and plants greenbelts around the odor sources; as well as sets up the organic and ionic processing facilities for the bio-treatment of odor so that it can meet the national emission standards.

The Company adopts a quarterly monitoring mode to regularly inspect whether the odor concentration in the plants achieves the standard. The Company delegates a third party monitoring company to collect air example in the plants and conduct inspection according to the Three Odor Bags Comparison for the Measure of Odor on the Air Quality (《空氣質量惡臭的測定三點比較式臭袋法》) (GB/T14675-93). The standard of the acceptable odor concentration is 20 (dimensionless quantity). The report of inspection results shows that the odor concentration in the plants is less than 20 (dimensionless quantity) and all achieves the standard.

2. Wastewater

The Company's main business is sewage treatment, operation of water supply facilities, reclaimed water utilization, etc. We receive wastewater and reduce the waste in it by way of treatment and purification, in order to minimize the impact of wastewater on the environment and protect the ecological environment of rivers and lakes. In 2017, all the factories operated by the Company reduced Chemical Oxygen Demand of 143,426.46 tons, ammonia nitrogen of 12,982.22 tons and total phosphorus of 2,739.08 tons.

In 2017, the goals of pollutant reduction in Kunming in respect of Chemical Oxygen Demand and ammonia nitrogen was 133,138 tons and 11,873 tons, respectively, and the Company completed its emission reduction goals, which received recognition and praise from governments at all levels.

Wastewater generated in our operation includes domestic sewage, backwash water of equipment and some water for forestation in our plants. All the wastewater will be transferred to sewage treatment plants collected either by circulation networks or by municipal pipe network and then discharged if they meet discharge standard after treatment. During the Reporting Period, the emission of our Chemical Oxygen Demand (COD) and ammonia nitrogen (NH₃-N) was 6,962 tons and 297 tons, respectively.

3. Sludge

In 2017, we produced dry sludge of 68,937 tons in aggregate during the production and operation, and the dry sludge produced in the treatment of every 10,000 ton of wastewater was 1.1 tons.

We strictly adhere to the relevant required standards such as the Quality of Sludge for Municipal Wastewater Treatment Plant (GB 24188-2009) (《城镇污水处理廠污泥泥質》(GB 24188-2009)) and conduct inspection on the quality of sludge at least semiannually. Subject to the requirements under the management system on measurement, transportation and disposal, we ensure the sludge treatment process to be in compliance with the national standards and criteria. We are committed to reducing the impact of sludge on the environment while promoting the relevant works on transforming the sludge into available resources.

4. Other wastes

As for the hazardous waste oil produced during the operation of machinery and equipment and the hazardous waste liquids generated in the process of examination, the Company sets up waste holding areas according to the relevant national regulations and the measures to prevent wind dispersal, leakage and runoff, and commissions the qualified third-parties to dispose the waste by batch. In 2017, the Company commissioned the qualified third-parties to dispose wastes of 18.27 tons.

The Company will continuously strengthen the maintenance and management of the mechanical equipment and inspection instrument, and use the equipment oil and inspection liquids on a reasonable basis to avoid the production of unnecessary waste oil and waste liquids, so as to reduce the amount of waste oil and waste liquids.

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 water supply services, in the water industry and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake. As "finished products", our outlet water strictly complies with the relevant national and local standards such as the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城镇污水处理廠污染物排放標準》) without using resources such as packing materials.

The Company gives priority to enhance the conservation 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 so that all the staff can know how to save resources effectively.

The Company advocates the use of video conferencing, and supports long-distance, real-time information exchange and collaborative conferences with multi-media technologies such as real-time audio and video, so as to reduce office costs, improve work efficiency and promote a low-pollution and low-emission green office.

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.

4. YEAR OF 2017

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 2017, all the factories operated by the Company consumed electricity of approximately 175,000 thousand kWh in aggregate.

In order to increase energy utilization rate, the Company, supported by the platforms designed specially for water projects under the 12th Five-Year Plan of the State, 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 by 20% from 0.29 kWh/m³ in 2012 to 0.24 kWh/m³ in 2017, translating into an average cost saving of RMB12.7 million per year (energy charge of RMB0.56/kWh). 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 2017.

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*

In 2017, all the factories operated by the Company consumed running water of approximately 60 thousand tons in aggregate and consumed 0.97 ton for the treatment of each 10 thousand tons of wastewater.

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, so as to reduce the water consumption in the process of production. 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, 2017, Dianchi Water had 7 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 52,000 m³. Customers of Dianchi Water's reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming.



4. YEAR OF 2017

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 52.7%, NH₃-N (Ammonia nitrogen in the form of Water with free ammonia (NH₃) and Ammonia

ion (NH₄⁺)) level decreased by 73.8%, TN (Total nitrogen) level decreased by 38.6%, TP (Total phosphorus) level decreased by 40.0% and BOD (Biochemical Oxygen Demand) level decreased by 40.4% and energy consumption decreased by 26.4% from 2012 to 2017; for our Kunming No. 2 Water Purification Plant, which uses the A₂/O (Anaerobic – Oxygen – Hypoxia) process, energy consumption decreased by 36.9%, effluent COD level decreased by 61.5%, NH₃-N level decreased by 52.1%, TN level decreased by 18.4%, TP level decreased by 51.7% and BOD level decreased by 38.3% from 2012 to 2017. 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 57.9%, TP by 47.2%, NH₃-N by 60.6%, TN by 27.0% and BOD by 42.4% from 2012 to 2017, which greatly reduced the pollution load brought by the tail water from wastewater treatment plants to natural water. As of December 31, 2017, 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 is 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 and its subsidiaries strictly comply with various national laws and regulations in relation to human resources such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), while the employees are legally entitled to the benefits, remunerations and holidays required by any law. The Company establishes the Measures on Human Resources Management (Trial) (《人力資源管理辦法(試行)》), the Interim Measures for the Administration on Remuneration (《薪酬管理暫行辦法》) and the Interim Measures Governing the Performance Evaluation (《績效考核管理暫行辦法》) to satisfy the arrangement on the recruitment, internal transfer, training, promotion, performance evaluation, and remuneration and benefit of employees, and ensure that no employees are discriminated due to race, age and gender, etc. Besides, the employment of child labor is strictly prohibited and we are against forced labor of any kind, striving to let all the employees work with respect in an equal and harmonious work environment.

Dianchi Water provides training to promote ethical standard and provides 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 employees' 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 benefits 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 levels 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 2017

Recruitment

Dianchi Water carries out open recruitment to encourage fair competition, makes scientific 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.



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 benefits, 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.

Retirement Schemes

Dianchi Water participates in a social pension scheme established by the PRC government. The Company is required to contribute a certain percentage of the relevant employees' salaries to the social pension scheme. The Company also sets up a corporate annuity system for purchase of supplementary retirement insurance 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 is 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 been 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 operation, every level of employees is held responsible for production safety. The Company conducts safety checks on a regular basis to eliminate any hidden danger at work site, 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 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, backup cadres 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 on job attend various kinds of trainings on a regular basis according to their job duties, which include professional trainings organized by the training center, such as wastewater treatment process, water quality testing and test result analysis skills.

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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 rapid 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 in relation to production safety accidents 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 enhance their awareness of 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.



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 based 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 for its facilities, construction contractors who design and construct its facilities and suppliers of raw materials including wastewater treatment chemicals and other equipment maintenance consumables. 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 RMB76.2 million, accounting for approximately 23.52% of total purchases. During the Reporting Period, Dianchi Water made RMB168.2 million worth of purchases from its top five suppliers, which accounted for approximately 51.9% 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 Yunnan Gongtai Project Construction Co., Ltd., Jiangxi Geo-Engineering (Group) Corporation, and Yunnan Wenbin Municipal Construction Co., Ltd., all of which were responsible for certain parts of the Company's projects, and raw materials providers such as Zunyi Huiheng Environmental Protection Technology Co., Ltd., Shenzhen Pufeisi Environmental Protection Technology Co., Ltd., Kunming Lude Chemicals Co., Ltd., and Kunming Nuoxiao Economic and Trade Co., Ltd., all of which offered wastewater treatment chemicals and and other materials for the operation and maintenance of our facilities.

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, holding 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, subsidiaries of Dianchi Water 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 headquarter 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 allows 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 of December 31, 2017, Dianchi Water did not have any overdue payments.

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Dianchi Water has readily available alternative suppliers in the market who offer similar raw 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% equity 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 of December 31, 2017, Dianchi Water has not experienced any material difficulty in obtaining any utility services, construction services, or supply of raw materials or equipment for its business operations.

B6. Product Responsibilities

The Company attaches great importance to product quality. With reference to its own conditions, it sets up and implements 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 (《城镇污水处理厂污染物排放标准》(GB18918-2002)).

B7. Anti-corruption Efforts

Dianchi Water attaches great importance to cleansing Party construction and anticorruption 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 agrees on work targets and responsibilities of the Company in cleansing Party construction and anti-corruption on an annual basis with relevant regulatory authorities, whereby the regulatory authorities, through supervision and inspection, exert dynamic regulation over the anti-corruptions efforts of the Company.

Second, the Company agrees on work targets and responsibilities in cleansing Party construction and anti-corruption with subsidiaries, and agrees on the targets and responsibilities of “dual responsibilities for one post” with leading cadre in the Party Committee.

Third, the regulatory authorities entrust third-party to conduct economic auditing of the Company on an annual basis, in order to effectively identify deficiencies and prevent corruption.

Fourth, the Company establishes and keeps improving the internal long-acting mechanism for anti-corruption, whereby the corruption could be effectively put under control through the establishment of such institutional systems.



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Dianchi Water establishes an effective linkage mechanism to prevent extortion, fraud and money laundering. First, popularizing the study on risk knowledge and strengthening the risk awareness; second, signing target responsibility statement on safe production and environment protection and responsibility statement for target operation to strengthen the operating management; third, further improving the procedures of the review and execution of contracts; and fourth, establishing an effective linkage mechanism to prevent extortion, fraud and money laundering, with an aim to effectively prevent extortion, fraud and money laundering.

B8. Community Investment

In order to fully implement the decision deployment made at the 3rd Session of the 11th Plenary (Expanded) Conference of the Kunming Municipal Committee to ensure the poverty relief in Xundian County as scheduled, Dianchi Water, as a newly added municipal state-owned enterprise for the targeted poverty relief project of Rende Street, Xundian County, is mainly responsible for supporting the

construction of related infrastructures of Rende Street, in accordance with the deployment of “Circular on Strengthening the Supportive Forces to Boost the Poverty Relief in Xundian County by the Poverty Relief Command Office of Kunming City” (《昆明市脱贫攻坚指挥部办公室关于增强帮扶力量助推寻甸县脱贫攻坚的通知》)(Kun Tuo Zhi Ban Fa [2017] No. 12).

After joint investigation, reconnaissance and assessment by the poverty alleviation team, the Xundian County Poverty Alleviation Office and Rende Street Office, it is proposed to assist the infrastructure construction projects in Beiguan village, Shimenkan village, Bangongtian village, Jinglean village, Masangke village, Haizitun village, Xiaofagu village, Daoyuan village, Shabaqizu under the administration of the Rende Street in Xundian County, with a budget of RMB7,564.314 thousand. Those projects cover 75 infrastructures in 12 aspects, including entrance and inside roads, Party member activity rooms, public toilets, garbage rooms, lighting facilities, sewage disposal facilities, village appearance,



road outside Rende Second Primary School, standardized playground of Rende Fourth Wanquan Primary School and auxiliary facilities. The said matter has been decided by Dianchi Water through company decision making process and submitted to the municipal SASAC for approval.

On November 14, 2017, according to the requirements of "Circular on Allocation of Poverty Alleviation Funds to Help Targeted Families in Xundian County by the Municipal SASAC" (《市國資委關於撥付尋甸縣幫村幫戶幫扶資金的通知》) (Kun Guo Zi Fa [2017] No. 231), Dianchi Water allocated the poverty alleviation funds of Rende Street, Xundian County of RMB3,785.4 thousand to the financial poverty alleviation special account of Xundian County to help the construction of infrastructure projects of Rende Street, Xundian County. The remaining funds of RMB3,778.914 thousand will be allocated in accordance with the specific arrangements of the municipal Party committee and the municipal government for coordinating the development of industrial projects, after receiving the relevant notification documents from the higher authorities.

Dianchi Water's first batch of funds of RMB3,785.4 thousand for the poverty alleviation projects of Rende Street has been ascertained and is used to carry out whole village promotion and safety project of drinking water for human and animal in respect of 5 poor villages in Rende Street, namely Dacunzi village, Shimenkan village under Beiguan village committee, Jinglean village under Zhongqiao village committee, Bangongtian village under Shengli village committee and Masangke village under Heping village committee, as well as the construction project of standardized playground of Rende Fourth Wanquan Primary School and auxiliary facilities. A total of 861 people from 255 documented destitute households and more than 750 students are benefited accordingly. At present, the poverty alleviation projects are progressing smoothly, and 99% of the total project volume has been completed.



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On December 30, 2017, in the Qingshui Lake water source protection area of Xundian County, the water source area of Kunming, which is less than 100 kilometers from the urban area of Kunming, Guo Yumei, the Party secretary, chairperson and general manager of Kunming Dianchi Water Treatment Co., Ltd., in the company of others, went to

Haitou village, Xundian County, to carry out warm donation activities for all the relocated households. In Haitou Village Primary School, warm materials such as the winter quilts, blankets, warm water kettles and hot water bags were distributed to all the relocated households, offering warmth to the villagers in the Haitou village in the cold winter.



Qingshui Lake of Xundian County is an important source of drinking water in Kunming. In order to fully implement the requirements of the national environmental protection department, Yunnan province and Kunming city for the protection and rectification of Qingshui Lake drinking water source area, ensuring water quality in Qingshui Lake drinking water source area and urban water supply safety, the People's Government of Xundian County has introduced Dianchi Water as a social investor to invest in the relocation and resettlement environmental protection project of Haitou village in the Qingshui Lake water source protection area, accelerating the relocation and resettlement of 312 households in Haitou village, ensuring that it will be fully completed by the end of February 2018.

Dianchi Water decided to organize company personnel and social forces to donate bedclothes and warm materials for all relocated residents, not only as a social investor in the relocation and resettlement environmental protection project in Haitou village, to thank all the relocated households for their understanding and support for the implementation

of the project, but also as a leading environmental protection company in water treatment area, to fulfill its social responsibilities of always adhering to the development of environmental protection. The Company will complete all the infrastructure work as soon as possible and make every effort to ensure that the relocation and resettlement of Haitou village can be completed on time with high quality, ensuring the relocation and resettlement project of Haitou village in Qingshui Lake water source protection area to achieve the expected results and effects, and continuously gathering the power of environmental protection to make the environment more and more beautiful.

Dianchi Water actively undertakes the social responsibilities of environment protection, green development and wellbeing improvement, as well as offers quality municipal water and environmental services to the areas covered by its business. As the environmental science education hubs in Kunming, Yunnan, the water purification plants of the Company receive around 10 thousand people, including members of social groups,



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enthusiastic citizens and students for visit and interview every year. Through such activities as “One-day trip about the environment protection of Dianchi water (滇池治理保護環保一日遊)”, “Public open day of the water purification plants (水質淨化廠市民開放日)” and “Experience of wastewater treatment (污水處理工體驗活動)”, we lecture on the knowledge about wastewater treatment and the use of reclaimed water, advocate the concepts of recycle for use, water conservation and quality water for better use and promote the environment protection and green development, with an aim to build an interactive platform for society to learn about the science knowledge of wastewater treatment and participate in the water environment protection.

Dianchi Water believes that enterprises have a responsibility to create a better world. The Company continues to carry out charity and public welfare activities, such as sending volunteer team of the Company to communities and schools to publicize environmental protection knowledge, and participating in various public service activities such as the Kunming Employee Innovation Results and Skills Exhibition (昆明地區職工創新成果和技能展演), Young Volunteers Serving Kunming to Create a Civilized City (青年志願者服務昆明創建文明城市) and “Environmental Protection Entering the Campus”(環保進校園), so that the Company not only undertakes social responsibilities at the corporate level, but also has its employees participate in public service activities to continuously promote the development of community service.

