



**中國水務集團有限公司**  
**China Water Affairs Group Limited**

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**Green Finance Framework**

April 2021

## Overview of China Water Affairs

China Water Affairs Group Limited (“CWA”, and together with its subsidiaries, the “Group”) is one of the largest publicly listed water utility companies in China with a unique focus on water supply business. It is headquartered in Hong Kong, with operations management centers in Beijing and Shenzhen. It is listed on the Main Board of the Hong Kong Stock Exchange (0855.HK).

CWA began its operation in the water sector in 2003 and enjoys exclusive rights in cities where it operates the water supply business. While CWA derives the majority of its revenue from its water supply business, which represents over 80% of revenue for the FY ended March 31, 2020, CWA is also vertically integrated across the water value chain, engaging in raw water supply and sewage treatment businesses as well.

As of September 2020, China Water Affairs owns a diverse portfolio across 62 cities in 14 provinces and 3 municipal cities in China, with a daily water supply and treatment capacity of more than 9.0 million cubic meters. Its water supply business has more than 5.6 million connected water meters used by its residential, industrial and other end users.

CWA has been included in the FTSE Environmental Opportunities Asia Pacific Index since 2009 and the first batch of Shenzhen-Hong Kong Stock Connect by HKEX in 2016. CWA has been awarded “2019 Best Infrastructure and Public Utilities Stock Company” at the Golden Hong Kong Stocks Awards.

## China Water Affairs' Sustainability Vision

CWA takes “Water-oriented, Kindness to Society” (以水为本，达善社会) as its business philosophy. As a public utility provider, CWA fully recognizes that environmental improvement is the only option for businesses to achieve sustainable development.

China has become one of the signatories of the Paris Agreement and introduces an eco-civilisation development concept of “lucid waters and lush mountains are invaluable assets” (绿水青山就是金山银山). CWA is riding the wave and taking the lead to steadfastly implement its core strategies of urban-rural water supply integration and integration of water supply and drainage.

CWA is principally engaged in water supply and sewage treatment, which is inherently eco-friendly. In recent years, with the implementation of the strategies of urban-rural water supply integration and integration of water supply and drainage, the Group’s environmental value chain has been further extended.

In addition, the Group is committed to developing its direct drinking water business to create a healthy water consumption model and to reduce the consumption of plastic bottles, in an effort to alleviate the “white pollution” plaguing the planet.

### ***Facilitate Urban-rural Water Supply Integration***

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

Based on the extension of urban water supply pipelines and large-scale water supply projects, the urban-rural water supply system is supplemented by small-scale centralised water supply projects and discrete water supply projects, in order to achieve full coverage and the sharing of quality water supply between urban and rural areas.

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

The Group has been committed to developing its environment-friendly and people-oriented dual water supply business, with the aim of enabling more people to enjoy healthy and quality water without consuming bottled water.

The Group has established direct drinking water businesses in 31 cities and invested in more than 200 direct drinking water projects, serving a population of 680,000. In the future, the Group will go beyond the regions with present water supply projects and deploy its dual water supply business nationwide to further promote the benefits to environment brought by direct drinking water.



### **Water Improvement for the Good of All – Reduce Environmental Impact of Wastewater**

The scarcity of water as a natural resource needs no further explanation. Sewage treatment not only improves the ecological environment, but also recycles and reuses the water resources, which is of great significance to the sustainable development of businesses, society and even mankind. The Group continuously processes its wastewater effectively to minimise its environmental impacts.

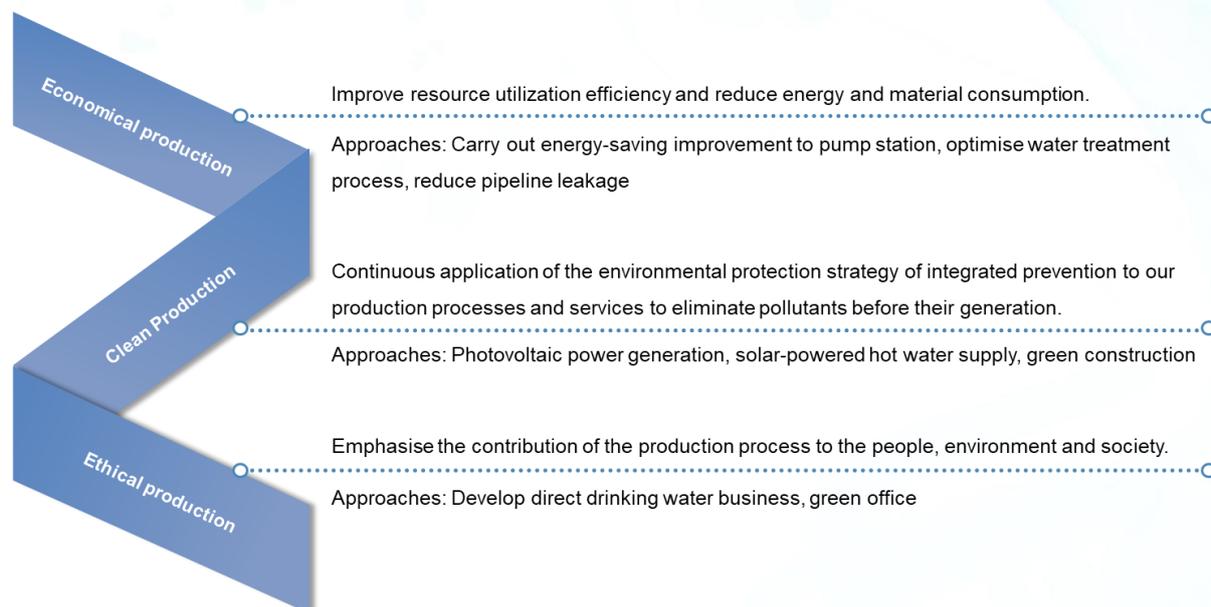
Meanwhile, the Group also upgrades and improves its sewage treatment plants. The majority of the plants comply with the First Grade A under the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (GB18918-2002). All of the sewage treatment projects are equipped with effluent monitoring systems, which are capable of recording effluent quality data in a timely and reliable manner.

### **Drain the Swamp - Operation and Maintenance of Urban Drainage Network**

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

## **Energy-saving and Reduce Emissions - Enjoying Crystal-clear Water and Blue Sky Together**

As a public utility provider, the Group always regards energy-saving and emission reduction as key issues of its operation and management, which are strictly implemented in its daily operations.



### **China Water Affairs's Green Finance Framework**

This Green Finance Framework ("GFF" or the "Framework") has been developed to detail how the Group and its subsidiaries intend to issue Green financing transactions ("GFT") to fund projects and developments that will deliver environmental benefits to support CWA's business strategy and green and sustainability vision, particularly those related to improving the environmental performance of buildings, landscapes and the communities in which they are located, as well as the health of their respective users.

GFTs may issue bonds, loans and other debt-like financing products where an equivalent amount to the net proceeds are applied to eligible green projects ("Eligible Green Projects") as defined in this Framework.

- Bonds issued under the Framework will be aligned with the ICMA Green Bond Principles 2018 ("GBP") or as they may be subsequently amended.
- Loans issued under the Framework will be aligned to the LMA / APLMA / LSTA Green Loan Principles 2021 ("GLP") or as they may be subsequently amended.
- Other forms of financing may conform to other well-established green or sustainable finance principles as may have been established at the time.

GFTs do not place restrictions on the tenor and currency and can include other terms and conditions including covenants, to reflect the financing strategy and plans of CWA as well as the outcome of the commercial discussions between the Issuer/Borrower and Manager/Arranger/Lender.

GFTs may be issued in any jurisdiction and market reflecting CWA's current and future business needs.

Each GFT will adopt procedures for managing (1) Use of Proceeds (2) Project Evaluation and Selection (3) Management of Proceeds and (4) Reporting, as set out in the Framework. This Framework may be updated to ensure continual alignment with market practices, emerging standards and classification systems.

## I. Use of Proceeds

An equivalent amount to the net proceeds from each GFT will be used exclusively to finance or refinance, in whole or in part, the acquisition, construction, development or upgrade of new or existing Eligible Green Projects that meet one or more of the following categories of eligibility as recognised in the GBP/GLP. Refinancing of Eligible Green Projects will have a look-back period of no longer than 36 months from the time of issuance. CWA is committed to fully allocate the net proceeds of each GFT on a best effort basis within 24 months of issuance.

The Eligible Green Project categories that may be utilised under the Framework, together with associated selection criteria (“**Eligibility Criteria**”) are set out below.

Eligible Green Project Categories	Eligibility Criteria & Examples	UN SDG Mapping
<b>Sustainable Water and Wastewater Management</b>	<ul style="list-style-type: none"> <li>• Expenditures related to construction, upgrades, renovations or improvements of water supply and wastewater related facilities, infrastructure or systems, including but not limited to:               <ul style="list-style-type: none"> <li>– Water supply plants, pumping stations and distribution network to increase efficiency, accessibility of water delivery system, improve water quality and reduce water leakage</li> <li>– Water monitoring systems to detect water leakage</li> <li>– Drainage pipeline network and sewage treatment plants to reduce pollution</li> </ul> </li> </ul>	 
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• New or existing investments in or expenditures on renewable energy production units. Renewable energy and energy storage projects can include solar and wind projects</li> </ul>	

### Exclusionary Criteria

The following sectors and activities will be excluded from Eligible Green Projects:

- Sectors which are prohibited by laws and regulation in China, such as child labour, gambling industry, adult entertainment and corporations which are in association with illegal activities
- Hydro power with installed capacity >20MW
- Nuclear energy
- Coal based energy generation and distribution infrastructure for such energy
- Activities which are in relation to hazardous chemicals and radioactive substance

## **II. Project Evaluation and Selection**

CWA imposes strict environmental and risk management policy during its normal course of business.

The Eligible Green Projects are identified and selected via a process that involves participants from various functional areas. Environmental Social Management System Working Group (“EWG”) has been set up, composed of the senior members including General Manager and representatives from various departments.

EWG will meet at least every 12 months to discuss and select eligible green projects according to the Eligible Green Projects defined in this Framework. The shortlisted projects will be presented to the board for approval.

EWG will ensure that the selected Eligible Green Project to comply not only with the section Use of Proceeds section of this Framework but also the environmental guidelines which are applicable for CWA.

In addition, EWG will be responsible for managing any future updates of the Framework, including any expansion of requirements of use of proceeds. In case of divestments or if an Eligible Green Project no longer meets the eligibility criteria, the funds will be reallocated to other Eligible Green Projects.

## **III. Management of Proceeds**

CWA intends to allocate, over time, an amount equal the net proceeds to finance or refinance Eligible Green Projects, selected in accordance with the eligibility criteria, and using the evaluation and selection process outlined above.

The net proceeds from each GFT will be managed by CWA’s finance team and the proceeds from each GFT will be deposited in general funding accounts and will be earmarked to Eligible Green Projects. CWA will maintain a register to keep track of the use of proceeds for each GFT.

The register will contain the following information:

### (1) Type of Funding Transaction:

- Key information including, issuer/borrower entity, transaction date, tranche(s) information, principal amount of proceeds, repayment or amortization profile, maturity date, and interest or coupon (and in the case of bonds, the ISIN number)

### (2) Allocation of Use of Proceeds:

- Name and description of Eligible Green Projects to which the proceeds of the GFT have been allocated in accordance with this Framework
- Amount and date of GFT proceeds allocated to each project
- The remaining balance of unallocated proceeds yet to be earmarked
- Other relevant information such as information of temporary investment for unallocated proceeds

Any balance of issuance proceeds which are not yet allocated to Eligible Green Projects will be held in accordance with CWA's liquidity guidelines for short term time deposits or investments. CWA commits not to invest unallocated proceeds in carbon intensive activities or any projects that are in conflict with the eligibility criteria under the GFF.

During the life of the GFT issued, if the designated Eligible Green Projects cease to fulfil the eligibility criteria, the net proceeds will be re-allocated to replacement Eligible Green Projects that comply with the eligibility criteria, as soon as reasonably practicable. CWA strives to maintain over time an amount of Eligible Green Projects at least equal of the total net proceeds of all GFT outstandings.

Additionally, if any material and critical controversies emerge in relation to a specific project, CWA commits to substitute that project with an alternative Eligible Green Project.

#### **IV. Reporting**

CWA will provide information on the allocation of the net proceeds from each GFT in the CWA's Annual Report, ESG Report or website. Such information will be provided on an annual basis until all the net proceeds have been allocated and in the event of any material changes until the relevant maturity date.

The information disclosed will contain the following details:

##### **Allocation Reporting**

- Details of each GFT that is outstanding
- Aggregate amount of proceeds from each GFT that has been allocated to Eligible Green Projects
- Share of financing vs refinancing
- Balance of unallocated proceeds from each GFT
- Examples of Eligible Green Projects (subject to confidentiality disclosures):
  - The aggregate amount allocated to various Eligible Green Projects
  - The remaining balance of funds which have not yet been allocated and type of temporary investment

## Impact Reporting

Where possible, CWA will report on the environmental and social impacts of the Eligible Green Projects. Subject to the nature of Eligible Green Projects and availability of information, CWA aims to include, but not limited to, the following Impact Indicators:

### Eligible Green Project Categories

### Impact Indicators

#### Sustainable Water and Wastewater Management

- Absolute (gross) amount of water supplied before and after the project in m<sup>3</sup> p.a.
- Absolute (gross) amount of reduction in water loss before and after the project in m<sup>3</sup> p.a. or %
- Absolute (gross) amount of wastewater treated in m<sup>3</sup> p.a.
- Number of people and cities served

#### Renewable Energy

- Annual GHG emissions reduced/avoided (t CO<sub>2</sub> eq p.a.)
- Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)
- Capacity of renewable energy plant(s) constructed or rehabilitated in MW

## External Review

CWA has engaged Sustainalytics to provide an External Review in the form of a Second Party Opinion on the Framework and to confirm the alignment with the GBP/ GLP. The External Review has been made public on CWA's website at <http://www.chinawatergroup.com/>.