

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The board of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements.

During the year ended 31 March 2020, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.4.2 and A.6.7.

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Duan Chuan Liang serves as the Chairman of the Company. The function of chief executive officer is collectively performed by the executive directors. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board continues to believe that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has strong confidence in the executive directors and believes that this structure is beneficial to the business prospects of the Company.

Under code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the role of the chairman provides the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of Board should not be subject to retirement by rotation.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 6 September 2019 due to their other business commitments.

The Company has formulated and adopted its corporate governance policy ("CG Policy") and it is the responsibility of the Board to perform the corporate governance duties. The CG Policy outlines certain essential corporate governance principles under the CG Code and intends to provide appropriate guidance on the effective application and promotion of corporate governance principles in the Company. The CG Policy is available on the website of the Company.

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DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code throughout the year ended 31 March 2020 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD AND BOARD COMMITTEES

As at 31 March 2020, the Board consisted of fourteen Directors: comprising five executive Directors, namely Mr. Duan Chuan Liang (Chairman), Ms. Ding Bin, Ms. Liu Yu Jie, Mr. Li Zhong and Mr. Duan Jerry Linnan; four non-executive Directors, Mr. Zhao Hai Hu, Mr. Zhou Wen Zhi, Mr. Makoto Inoue and Ms. Wang Xiaoqin; and five independent non-executive Directors, namely Mr. Chau Kam Wing, Mr. Siu Chi Ming, Ms. Ho Ping, Ms. Zhou Nan and Mr. Chan Wai Cheung Admiral. Three of the independent non-executive Directors, namely Mr. Chau Kam Wing, Mr. Siu Chi Ming and Mr. Chan Wai Cheung Admiral, have the professional accounting qualifications and expertise required by the Listing Rules. Accordingly, the Company complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Board is principally responsible for formulating business strategies, and monitoring the performance of the business of the Group. The Board decides on corporate strategies, approves overall business plans, evaluates the Group's financial performance and management, establish corporate governance and reviews the risk management and internal control system. Other than the daily operational decisions which are delegated to the management of the Group, most of the decisions are taken by the Board. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of risk management and internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Except Mr. Duan Jerry Linnan is the son of Mr. Duan Chuan Liang, the Board members have no financial, business, family or other material/relevant relationships with each other. Given the composition of the Board and the skills, knowledge and expertise of the Director, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has appropriate balance of expertise, skills and experience to continue the effective oversee of the business of the Company. Details of the experience and qualifications of Directors and senior management of the Company are set out in the section headed "Directors' and Senior Management Biographical Details" in this annual report.

Each of the independent non-executive Directors has confirmed in writing his/her independence from the Company pursuant to rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

There was in place appropriate insurance cover in respect of legal action against the Directors arising out of corporate activities.

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The Board has established three board committees to strengthen its functions and corporate governance practices, namely, audit committee (the "Audit Committee"), nomination committee (the "Nomination Committee") and remuneration committee (the "Remuneration Committee"). The Audit Committee, the Nomination Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference which are available on the website of the Company.

Audit Committee

The Audit Committee comprises wholly independent non-executive Directors.

Members of the Audit Committee

Mr. Chau Kam Wing (*Chairman*)

Mr. Siu Chi Ming

Ms. Ho Ping

Ms. Zhou Nan

Mr. Chan Wai Cheung Admiral

Main functions of the Audit Committee are:

- reviewing the accounting policies and supervising the Company's financial reporting process;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements;
- monitoring the performance of both the internal and external auditors;
- assisting the Board to perform its responsibilities of risk management and internal control systems;
- overseeing the Group's risk management and internal control systems on an ongoing basis;
- reviewing and examining the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;
- considering major findings on risk management and internal control matters, and reports and makes recommendations to the Board; and
- ensuring the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions.

The Audit Committee is provided with sufficient resources to discharge its responsibilities. For the year ended 31 March 2020, the Audit Committee held two meetings which included the review of the final results for the year ended 31 March 2019, the interim accounts for the six months ended 30 September 2019 and the risk management and internal control system of the Group.

Remuneration Committee

The Remuneration Committee comprises wholly independent non-executive Directors.

Members of the Remuneration Committee

Mr. Chau Kam Wing (*Chairman*)

Mr. Siu Chi Ming

Ms. Ho Ping

Ms. Zhou Nan

Mr. Chan Wai Cheung Admiral

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Remuneration Committee is responsible for making recommendations to the Board on the remuneration packages of Directors and senior management, with reference to Directors' duties, responsibilities and performance and the results of the Group. No Director will be involved in deciding his own remuneration.

For the year ended 31 March 2020, four meetings were held by the Remuneration Committee which reviewed the remuneration packages of the Directors and senior management.

Remuneration of Directors and Senior Management

Particulars in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 15 to the consolidated financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 March 2020 is set out below:

	Number of Individuals
HK\$2,500,001 – HK\$3,000,000	2

Nomination Committee

The Nomination Committee comprises four members, amongst which one is executive Director and three are independent non-executive Directors.

Members of the Nomination Committee

Mr. Duan Chuan Liang (*Chairman*)
 Mr. Chau Kam Wing
 Mr. Siu Chi Ming
 Ms. Ho Ping

The Nomination Committee, with the aim to build up a strong and diverse Board, would identify suitable and qualified individuals, in particular those who can add value to the management through their expertise in relevant strategic business areas, to be the board members, and would recommend the Board on relevant matters relating to the appointment or re-appointment of Directors, if necessary. The Nomination Committee shall meet before the holding of each annual general meeting of the Company where the appointment of Directors of the Company will be considered. Additional meetings should be held as and when the work of the Nomination Committee demands. Details of the procedure for shareholders to propose a person for election as a Director are outlined in the "Nomination Policy" which is available on the Company's website.

For the year ended 31 March 2020, the Nomination Committee held four meetings to review the composition of the Board, to assess the independence of independent non-executive Directors and to make recommendations to the Board on the appointment and re-appointment of Directors taking into account their experience and qualifications.

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Board Diversity Policy

On 28 August 2013, the Nomination Committee adopted the board diversity policy of the Company which sets out the approach to achieve diversity on the Board. The Board recognises the benefits of board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to formulate and implement the Group's business strategies. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the candidates' merits and contributions to the Board. The Nomination Committee reviews the board diversity policy, as appropriate, to ensure its effectiveness from time to time. The Company considers that the current Board composition is characterised by diversity, whether considered in terms of gender, professional background and skills.

The individual attendance record of the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings and general meetings attended by each Director during the year ended 31 March 2020 are set out in the following table.

	Notes	Meetings attended/(held)				General meeting
		Board	Audit Committee	Remuneration Committee	Nomination Committee	
<i>Executive Directors</i>						
Mr. Duan Chuan Liang (Chairman)		4/(4)	N/A	N/A	4/(4)	1/(1)
Ms. Ding Bin		4/(4)	N/A	N/A	N/A	0/(1)
Ms. Liu Yu Jie		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Li Zhong		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Duan Jerry Linnan	1	2/(2)	N/A	N/A	N/A	N/A
<i>Non-executive Directors</i>						
Mr. Zhao Hai Hu		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Zhou Wen Zhi		2/(4)	N/A	N/A	N/A	0/(1)
Mr. Makoto Inoue		0/(4)	N/A	N/A	N/A	0/(1)
Ms. Wang Xiaoqin		3/(4)	N/A	N/A	N/A	0/(1)
<i>Independent Non-executive Directors</i>						
Mr. Chau Kam Wing		4/(4)	2/(2)	4/(4)	4/(4)	1/(1)
Mr. Siu Chi Ming		4/(4)	2/(2)	4/(4)	4/(4)	1/(1)
Ms. Ho Ping		4/(4)	2/(2)	4/(4)	4/(4)	0/(1)
Ms. Zhou Nan	2	2/(2)	1/(1)	1/(1)	N/A	N/A
Mr. Chan Wai Cheung Admiral	3	1/(1)	N/A	N/A	N/A	N/A
Mr. Ong King Keung	4	2/(2)	1/(1)	2/(2)	N/A	1/(1)

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Notes:

1. Mr. Duan Jerry Linnan is appointed as an executive director on 15 October 2019. His attendance is presented by reference to the number of relevant meetings held during his tenure.
2. Ms. Zhou Nan is appointed as an independent non-executive director on 22 November 2019. Her attendance is presented by reference to the number of relevant meetings held during her tenure.
3. Mr. Chan Wai Cheung Admiral is appointed as an independent non-executive director on 15 January 2020. His attendance is presented by reference to the number of relevant meetings held during his tenure.
4. Mr. Ong King Keung resigned as an independent non-executive director on 22 November 2019. His attendance is presented by reference to the number of relevant meetings held during his tenure.

The Board is provided with relevant materials in relation to the matters brought before the meetings. Reasonable notices of meetings are given to the Directors and the Directors are encouraged to propose new items as any other business for discussion at the meetings. The Director has separate access to the Company's senior management for information at all times and may seek independent professional advice at the Company's expenses, if necessary. Minutes are kept by the company secretary and are open for inspections by all Directors at any reasonable time. Procedures for convening meetings of the Board and Board committees and preparing minutes of the meetings have complied with the requirements of the Articles of Association of the Company and applicable rules and regulations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 March 2020, Mr. Duan Chuan Liang serves as the Chairman of the Company who is responsible for the leadership of the Board. The function of chief executive officer is collectively performed by the executive Directors, who are responsible for the day-to-day management of the Group's business.

DIRECTORS' COMMITMENTS AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company has received confirmation from each Director that he has given sufficient time and attention to the affairs of the Company for the year ended 31 March 2020.

Every newly appointed Director receives an induction upon his/her appointment to ensure that he/she has a proper understanding of operations and business of the Group and is fully aware of responsibilities and obligations of being a Director. The Group provides continuing briefings and professional development to the Directors to update on the latest development in relation to the Listing Rules and other applicable regulatory requirements as well as the Group's business and governance policies.

During the year ended 31 March 2020, all Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group including reading materials in relation to regulatory update and/or attending seminars to develop professional skills.

COMPANY SECRETARY

Mr. Lie Chi Wing, Aston is the Company Secretary of the Company. He has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge during the year ended 31 March 2020.

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RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The Directors are responsible for the preparation of accounts for each financial year with a view to ensuring such accounts give a true and fair view of the state of affairs of the Company and of the Group and the results and cash flow of the Group for the year. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are appropriate and reasonable. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

A statement by the auditor about their reporting responsibilities is set out on pages 36 to 43 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's risk management framework and the responsibilities of each delegated group within it are as follows:

Board

- determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;
- ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit Committee

- reviews the accounting policies and supervises the Company's financial reporting process;
- ensures compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements;
- monitors the performance of both the internal and external auditors;
- assists the Board to perform its responsibilities of risk management and internal control systems;
- oversees the Group's risk management and internal control systems on an ongoing basis;
- reviews and examines the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;
- considers major findings on risk management and internal control matters, and reports and makes recommendations to the Board; and
- ensures the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions.

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Management

- designs, implements and maintains appropriate and effective risk management and internal control systems;
- identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;
- monitors risks and takes measures to mitigate risks in day-to-day operations;
- follow up the findings on risk management and internal control matters raised by the internal audit team and take prompt remedial action to improve the systems; and
- provides confirmation to the Board and Audit Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Team

- reviews the adequacy and effectiveness of the Group's risk management and internal control systems; and
- reports to the Audit Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified.

The Group's internal audit function is performed by an internal audit team and it plays an important part in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports directly to the Audit Committee. The team conducts internal audit reviews on material internal control systems covering major financial, operational and compliance controls, as well as risk management functions. The internal audit team reports to the Audit Committee on a regular basis and recommends remedial plans to management for any internal control deficiencies identified. The team monitors the implementation of its recommendations by the management and reports the outcome to the Audit Committee.

The Board has reviewed the effectiveness of the Group's risk management and internal control systems and considered them to be effective and adequate during the year under review.

HANDLING INSIDE INFORMATION

An information disclosure policy is in place to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- designated reporting channels from different operations informing any potential inside information to designated departments;
- designated persons and departments to seek appropriate external professional advices and determine further escalation and disclosure as required; and
- designated persons authorised to act as spokespersons and respond to external enquiries.

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AUDITOR'S REMUNERATION

The remuneration payable by the Company to its auditor, PricewaterhouseCoopers ("PwC"), for the year ended 31 March 2020 amounted to HK\$8,830,000 (2019: HK\$7,430,000). HK\$310,000 (2019: HK\$50,000) was paid for other non-audit services provided by PwC to the Company and its subsidiaries during the year ended 31 March 2020.

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

The Company has set up and maintained various channels of communication with its shareholders and the public to ensure that they are kept abreast of the Company's latest news and development. Information about the Company's financial results, corporate details and major events are disseminated through publication of announcements, circulars, interim and annual reports and press release. All published information is promptly uploaded to the Company's website at www.chinawatergroup.com.

Under the clause 58 of the Company's Bye-laws, the Board, on the requisition of shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company. At the annual general meeting, shareholders can raise any questions relating to performance and future direction of the Group with the Directors. The Company maintains contact with its shareholders through annual general meeting or other general meetings, and encourages shareholders to attend those meetings.

Shareholders can also submit enquiries to the management and send proposals to be put forward at shareholders' meeting to the Board or senior management by sending emails to info@chinawatergroup.com or making phone calls to our investor relations team at +852 3968 6666. In addition, the Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

During the year ended 31 March 2020, there had not been any changes in the Company's constitutional documents.

DIVIDEND POLICY

The Company has adopted a dividend policy of distributing to its shareholders all funds surplus to the operating needs of the Group as determined by the Board with a target dividend payout ratio in respect of each financial year of not less than 30% of its basic earnings per share.

The distribution of dividend depends on, among others, the Group's current and future operations, operating results, liquidity position, capital requirements, the interests of the shareholders, dividends received from the Company's subsidiaries and associate companies, and other factors that the Board considered relevant.