



# **Shaoxing Shangyu Urban Construction Group Co., Ltd.**

## **Sustainable Finance Framework**

**October 2021**

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# 1. Introduction

## 1.1 Overview

The Group is a state-owned enterprise established in 2002. The Group is the investment and financing platform for urban development under Shangyu SASAC. Since its establishment in 2002, the Group played an important role in implementing the Shangyu District Government's blueprint for urban planning and municipal construction. It engages in a diverse range of businesses and investments across industries, including land development, urban infrastructure development, resettlement housing development and other businesses, including, but not limited to, environmental and sanitation services, gardening, greening, property leasing and management services.

The main business of the Group includes: (i) land development; (ii) urban infrastructure development; (iii) resettlement housing development; (iv) merchandising; and (v) other businesses.

## 1.2 SUSTAINABILITY VISION AND STRATEGY

### 1.2.1 SUSTAINABILITY BUSINESS

To achieve the sustainability goal, the Group strives to improve the ecological and social environment of Shangyu mainly through its main business, such as:

#### **Urban Infrastructure Development**

Under the authorisation of the Shangyu District Government, the Group provides construction and construction management services for urban infrastructure projects in Shangyu District. The Group carries out its urban infrastructure development business through the Guarantor itself and its subsidiaries, the Urban and Rural Eco-environmental Development Company, Chengzhongcun Company, the Project Company, the Municipal Construction Engineering Company and the Yuanlin Company. This business segment's services include road construction, municipal engineering, resettlement housing construction and landscaping project construction. The Group carries out its services under this business segment in three operational models, namely, commissioned construction, engineering construction services and construction management.

The Group primarily carries out its engineering construction projects through its subsidiaries Municipal Construction Engineering Company and Yuanlin Company. Under this operating model, the Group's subsidiaries entered into engineering construction contracts with relevant government departments or state-owned

enterprises, under which the Group's subsidiaries are primarily responsible for carrying out the construction phase of a project. Unlike the commissioned construction operating model, under engineering construction, the subsidiaries receive the engineering construction profits for their services. Construction projects may range from urban infrastructure, such as roads and bridges, construction to resettlement housing, among others.

### **Resettlement Housing Development**

Resettlement housing refers to price-controlled housing provided by the government to the low and middle-income families that have difficulty affording a residence, with specific standards. As the PRC's economy develops and the urbanisation accelerates, the friction between affordable housing demand and rising housing prices has become an increasing focus for policymakers and society in the PRC as a whole. The Group believes its resettlement housing development business is of great significance as it promotes social harmony and stability. The Shangyu District Government has always placed the protection and improvement of people's livelihood as one of their primary objectives. Since 2010, the planned construction of resettlement housing in Shangyu District was 1,030 (300 units of low-cost housing for sale, 700 units of public rental housing, and 30 units of low-rent housing) per year. Going forward, relevant national, provincial and local government policies and regulation will continue to drive the growth rate of resettlement housing construction in Shangyu District. The construction of resettlement housing in Shangyu District is conducive to improving the living conditions of the resettled residents, facilitating the integration of land resources, optimising Shangyu District's urban spatial layout, and facilitating the economic development of Shangyu District.

### **Environmental and Sanitation Services**

The Group was authorised to manage the environmental and sanitation services of the main city and development district of Shangyu District.

In 2017, the Group was authorised by the Shangyu District Government to manage the environmental and sanitation services in a number of streets in Shangyu District. The Group carried out such business through its subsidiary, the Huanwei Company. The Huanwei Company entered into a cleaning service agreement with Shangyu District Environmental and Sanitation Centre, and relevant street offices, according to which, the Huanwei Company has the right to charge the service fees from the other parties. Currently, the environmental and sanitation services business covers Baiguan Street, High-speed rail new city, Lianghu Street, Xiaoyue Street, Cao'e Street, Dongguan Street and Daoxu Street, among others.

## 1.2.2 SUSTAINABILITY MANAGEMENT

The Group is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the governmental authorities in the PRC, such as the Environmental Protection Law of the People's Republic of China (中华人民共和国环境保护法), Law on Environmental Impact Assessment of the People's Republic of China (中华人民共和国环境影响评价法), and etc.

## 1.2.3 SUSTAINABILITY STRATEGY

As a state-owned company in Shangyu District, the Group's vision is to develop Shangyu District into a modernised town and build a green and ecological environment for its residents and businesses. The Group intends to implement the following strategies:

The Group will follow the strategic positioning of establishing an "innovation zone and quality city". It will align its core businesses to the respective urban planning and development strategies of the national, provincial, municipal and district governments.

The Group will strive to transform Shangyu District into a centre of innovation, quality, harmony and happiness, and thereby coordinate the development of urban and rural areas and fully optimise the use of the Group's assets.

The Group aims to utilise its assets efficiently and develop projects to become a competitive supplier and service provider of urban infrastructure and public equipment, and to promote and accelerate the Greater Bay Area integration in the Yangtze River Delta.

# 2. SUSTAINABLE FINANCE FRAMEWORK OVERVIEW

As described below, the Group intends to use this amount or an equivalent amount within 36 months to finance or refinance, in whole or in part, one or more of the Group's new or existing both eligible green projects and eligible social projects ("Eligible Projects") as defined in this Sustainable Finance Framework (the "Framework"). The Framework has received a "second party opinion" by an independent consultant.

This Framework has been developed to demonstrate how the Group could, with Sustainability Financing Transactions (“SFTs”), fund projects that would deliver positive environmental impacts and foster sustainable practices in support of the Group’s green and sustainability strategy.

SFTs will include bonds, loans and other forms of debt financing with structures tailored to contribute to sustainable development by application of the proceeds to Eligible Project Categories as defined in this Framework.

- Bonds issued under the Framework will be aligned with the ICMA Green Bond Principles 2021 (“GBP”), Social Bond Principles 2021 (“SBP”), Sustainability Bond Guidelines 2021 (“SBG”) 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.

The Sustainability Bonds are aligned with the core components of GBP, SBP and SBG, with GBP being especially relevant to the Eligible Green Projects and SBP/SBG being especially relevant to the Eligible Social Projects, which the Group believes will catalyze positive environmental and social benefits. GBP is administered by the International Capital Markets Association (ICMA). GLP is administered by the Loan Market Associate (LMA), the Loan Syndications and Trading Association (LSTA) and the Asia Pacific Loan Market Association (APLMA).

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

SFTs may be issued in any jurisdiction and market reflecting the Group’s current and future business needs.

For each SFT issued under this Framework, the Group is committed to align with the following elements:




- I. Use of proceeds
- II. Project evaluation and selection
- III. Management of proceeds
- IV. Reporting

The Framework may be updated to ensure continual alignment with market practices, emerging standards and classification systems.




## 2.1 USE OF PROCEEDS

The net proceeds from any SFT will be used exclusively to finance and/or refinance, in whole or in part, new or existing Eligible Projects<sup>1</sup> that meet one or more of the following eligible categories as recognized in the GBP/SBP/SBG/GLP. Refinancing of Eligible Projects will have a look-back period of no longer than 36 months from the time of issuance. The Group will strive to fully allocate the net proceeds of each SFT within 36 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
Green buildings	<ul style="list-style-type: none"> <li>▪ Development, construction, refurbishment, maintenance, operations of buildings that meet national or international third-party environmental certifications, such as:               <ul style="list-style-type: none"> <li>- Chinese Green Building Evaluation Standard: two-star or above; or</li> <li>- any other similar recognized standards</li> </ul> </li> </ul>	 
Renewable Energy	<ul style="list-style-type: none"> <li>▪ Investments and expenditures in solar and energy storage technologies for its project development, including but not limited to solar photovoltaic energy systems</li> </ul>	


<sup>1</sup> The Group may own the Eligible Projects directly or indirectly through its subsidiaries.

<p>Pollution prevention and control</p>	<ul style="list-style-type: none"> <li>▪ Install waste recycling and equipment to reduce environmental pollution;</li> <li>▪ Waste management and prevention in order to mitigate its environmental impact, including but not limited to:                             <ul style="list-style-type: none"> <li>- refuse transfer station construction projects</li> </ul> </li> </ul>	
<p>Sustainable water and wastewater management</p>	<ul style="list-style-type: none"> <li>▪ Construction, development, installation, operation and maintenance of infrastructure or equipment for collection, treatment, recycling or reuse water, rainwater or wastewater</li> </ul>	
<p>Environmentally sustainable management of living natural resources and land use</p>	<ul style="list-style-type: none"> <li>▪ Investments and expenditures in greening of landscapes and preservation or restoration of natural landscapes, including but not limited to:                             <ul style="list-style-type: none"> <li>- creating and enhancing urban green space</li> </ul> </li> </ul>	

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

<p><b>Eligible Social Project Categories</b></p>	<p><b>Eligibility Criteria &amp; Examples</b></p>	<p><b>UN SDG Mapping</b></p>
<p>Affordable housing</p>	<ul style="list-style-type: none"> <li>▪ Construct and operate low-cost housing, including but not limited to resettlement housing projects</li> </ul>	



Affordable basic infrastructure	<ul style="list-style-type: none"> <li>Develop and construct large-scale infrastructure projects, such as but not limited to tunnels, roads, and bridges</li> </ul>	
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## 2.2 PROJECT EVALUATION AND SELECTION

The evaluation and selection process ensures that the proceeds of our SFTs are allocated to projects that meet the criteria set out in the Use of Proceeds under the Framework. The Group has established a Sustainability Financing Team (the “Team”) which governs the process, consisting of representatives and senior members from the Project Construction Department and Financial Department. The Team will meet on an annual basis and is responsible for:

- Evaluating the compliance of projects with the Eligibility Criteria outlined in the Use of Proceeds under the Framework;
- Approving the inclusion of pre-selected Eligible Projects in our Sustainability Project List (the Team has full discretion to object the inclusion of any project);
- Monitoring and managing the Sustainability Project List. We will maintain a register to keep track the use of net proceeds of the SFTs through the internal information system on an annual basis;
- Replacing projects that no longer meet the Eligible Criteria or due to any divestments;
- Observing developments in the Sustainable Financing markets and approving updates to this Framework accordingly to reflect relevant changes in our corporate strategy or market developments.

EIA as one of risk management tools to identify mitigates to negative social and/or environmental impacts from the relevant projects, if any. The assessment of environmental benefits in the feasibility study of each Eligible Project requires an environmental impact assessment (EIA) in accordance with the local requirements of the project. The assessment is carried out by a designated professional body which prepares an EIA report. The results of the assessment include the identification and analysis of the different environmental factors and their impacts on the environment throughout the life cycle, as well as the description of measures needed to reduce the impact on the environment. The unit responsible

for the EIA report then submits the EIA report to the local regulatory department, and the project is carried out after approval by the regulatory department is secured.

## 2.3 MANAGEMENT OF PROCEEDS

Net proceeds or the equivalent amount of the net proceeds of the SFTs will be deposited in the sub-account, which will then be earmarked for allocation to the Eligible Projects in accordance with the Framework. Net proceeds of the Sustainability Bonds awaiting allocation will be held in accordance with the Group's normal liquidity management policy. The Team will track the allocation of net proceeds from each SFT to Eligible Projects.

We will maintain a register to keep track the use of net proceeds of the Sustainability Bonds through the internal information system, and the Team will review the Sustainability Project List annually. If any of the Eligible Projects cease to fulfil requirements of Use of Proceeds under the Framework, we will identify other projects that comply with the Framework and re-allocate to those assets as soon as is practicable. The balance of the tracked net proceeds will be on a best effort basis annually adjusted to match allocations to Eligible Projects made during the outstanding of the SFT(s).

**Type of Funding Transaction:** Key information including the issuer/borrower entity, transaction date, principal amount, repayment or amortization profile, maturity date, interest or coupon, and the ISIN number.

Pending full allocation, unallocated proceeds will be:

- held in temporary investment instruments that are asset with high liquidity and safety such as cash or cash equivalent instruments; or
- held in temporary placements that do not include projects, assets or activities that are inconsistent with the nature of a green debt instrument.

The Group commits not to invest unallocated proceeds to high pollution activities or ineligible projects. The following sectors and activities will be excluded from Eligible Projects:

- activities that violate national laws and regulations, international conventions and agreements, or are subject to international bans and sanctions;
- production or trade of weapons and ammunition;
- production or trade of alcoholic beverages (except for beer and wine);
- production or trade of tobacco;

- enterprises engaged in gambling or casino operations or similar businesses;
- production or trade of radioactive materials (excluding equipment which radioactive source is considered insignificant and/or adequately shielded, for example, quality control equipment); or
- production or activities involving harmful or exploitative forced labour or harmful child labour.

## 2.4 REPORTING

The Group will provide information on the allocation of the net proceeds or equivalent amount of the net proceeds of the SFTs via the website, social media, or in the Group's ESG Report. Such information will be provided on an annual basis until all the net proceeds of the SFTs have been fully allocated.

**Allocation Report** should contain the following information:

- Amount of allocated proceed by Eligible Categories, with a brief description of green and/or social projects;
- The remaining balance of funds which have not yet been allocated;
- Share of financing vs. refinancing

Where possible, the Group will report on the environmental and/or social impacts associated with the Eligible Projects funded with the net proceeds of the SFT(s).

**Impact Report** may contain, on a best effort basis and subject to data availability, such as but not limited to the following information:

<b>Eligible Categories</b>	<b>Impact Indicators<sup>2</sup></b>
Green buildings	▪ Level of certification by building
Renewable energy	▪ Renewable energy capacity installed (in MW) ▪ Annual GHG emissions reduced/avoided in tonnes of CO <sub>2</sub> equivalent
Sustainable water and wastewater management	▪ Amount of rain water collected and re-used (in m <sup>3</sup> ) ▪ Annual absolute (gross) amount of wastewater treated in tonnes p.a
Pollution prevention and control	▪ Waste that is minimized or recycled in absolute amount in tonnes p.a.

<sup>2</sup> Appropriate environmental and social impact indicators will be determined in reference to frameworks and resources published by ICMA, such as the Harmonized Framework for Impact Reporting June 2021

	<ul style="list-style-type: none"> <li>▪ Amount of waste disposed in tonnes p.a.</li> </ul>
Environmentally sustainable management of living natural resources and land use	<ul style="list-style-type: none"> <li>▪ Restored, conserved or newly developed green area (in m<sup>2</sup>)</li> </ul>
Affordable housing	<ul style="list-style-type: none"> <li>▪ Number of dwellings</li> <li>▪ Number of individuals/families benefiting from subsidized housing</li> </ul>
Affordable basic infrastructure	<ul style="list-style-type: none"> <li>▪ Number of infrastructure projects built/upgraded</li> </ul>

**External Review:** the Group has engaged CECEP Environmental Consulting Group, an independent third party, to review and to issue an independent opinion on the Framework's alignment with the relevant ICMA/LMA principles and guidelines.