



Zhaoqing Guolian Investment Holding Co., Ltd.

Sustainable Finance Framework

October 2021

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1. Introduction

1.1 Overview

Founded in December 2013, the Group is a leading state-owned enterprise in Zhaoqing City. As a key state-owned assets operating entity carrying out engineering and infrastructure construction, commercial sales, water supply and sewage treatment, transportation, power generation and real estate development in Zhaoqing City, the Group undertakes to facilitate resources integration, enhance state-owned assets value and develop and operate major infrastructure projects in Zhaoqing City.

The Group primarily conducts its business in Zhaoqing City, a prefecture-level city in Guangdong Province. Located west of Guangzhou Province and within the Pearl River Delta, Zhaoqing City is one of the nine prefecture-level cities in the Pearl River Delta Economic Zone (珠江三角洲经济区). According to the Development Plan Outline for the Guangdong-Hong Kong-Macao Greater Bay Area (粤港澳大湾区发展规划纲要) promulgated by the State Council in 2019, Zhaoqing City is recognised as one of the nine cities in the PRC with highest economic growth potential. The excellent location of Zhaoqing City with great economic development potentials has supported and will continue to support the business growth of the Group.

1.2 SUSTAINABILITY VISION AND STRATEGY

1.2.1 SUSTAINABLE DEVELOPMENT

- **Power generation** - The Group operates a number of hydropower plants across Zhaoqing City through Zhaoqing Hejiang Power Development Co., Ltd. (肇庆市贺江电力发展有限公司), a subsidiary of Zhaoqing Water. The Group also operates a few hydropower plants in Tongren City of Guizhou Province and Zhuzhou City of Hunan Province. As at 30 June 2021, the Group operated 16 hydropower plants, including 49 power generation units which consist of three cascade power plants and 13 small hydropower stations, with a total installed capacity of 143 MW, locating across Zhaoqing City of Guangdong Province, as well as Tongren City of Guizhou Province and Zhuzhou City of Hunan Province.
- **Water supply and sewage treatment** - The Group is a primary entity undertaking water supply and sewage treatment business in Zhaoqing City. Commissioned by the Zhaoqing Municipal Government, the Group carries out

a wide range of water supply and sewage treatment related operations including water production and distribution and sewage collection and treatment. The Group's sewage collection and treatment operation, through its subsidiaries Zhaoshui Sewage and Zhaoqing Haowang, provides sewage collection and treatment services to residents and commercial entities in Duanzhou District, Gaoxin District (高新区) and Sihui City. For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, sewage treatment volume in the Group's sewage collection and treatment operation was approximately 96.8 million tons, 89.8 million tons, 81.3 tons and 51.4 tons, respectively.

- **Transportation** - The Group's transportation business primarily consists of city bus transportation services and, to a lesser extent, other passenger transportation services and freight transportation services. By the end of 2018, the Group completely replace the fuel buses of previous years by using clean-energy electric vehicles. As at 30 June 2021, the Group had a fleet of 629 buses in operation.
- **Engineering and infrastructure construction** - Engineering and infrastructure construction business is the primary source of revenue for the Group. The Group generally participates in the engineering construction projects as a general construction contractor. The Group has undertaken a number of engineering construction projects within Zhaoqing City, such as construction of urban infrastructure, municipal roads, pipe network and real properties. The Group also conducts engineering construction business in Yunfu City, Foshan City and other cities in Guangdong Province. As the key infrastructure construction entity in Zhaoqing City, the Group has also undertaken a number of infrastructure projects within Zhaoqing City, such as urban infrastructure, highways and other construction projects.

1.2.2 SUSTAINABILITY MANAGEMENT

The Group incorporates sustainability into daily operation and has established internal environmental management policies, including "Quality and Environmental Management Manual" and "Environmental Monitoring and Measurement Control Procedures".

The Group is subject to environmental laws and regulations governing air pollution, noise pollution, hazardous substances, water and waste discharge and other environmental matters issued by the governmental authorities in the PRC. The Group believes that it is in compliance in all material respects with applicable environmental laws and regulations.

Major laws and regulations on environmental protection during the project construction process include the Environmental Protection Law of the People's Republic of China (《中华人民共和国环境保护法》) amended by SCNPC on 24 April 2014 which became effective on 1 January 2015, 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》) promulgated by SCNPC on 28 October 2002 which became effective on 1 September 2003 and last amended on 2 July 2016, Administrative Regulations on Environmental Protection of Construction Projects (《建设项目环境保护管理条例》) issued by State Council on 29 November 1998 and became effective on the same date and amended on 16 July 2017 and became effective on 1 October 2017, and Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion (《建设项目竣工环境保护验收管理办法》) promulgated by SEPA on 27 December 2001 which became effective on 1 February 2002 and amended on 22 December 2010 which amendment became effective on the same date.

In accordance with the provisions of the Administrative Regulations on Environmental Protection of Construction Projects and Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion, the PRC government implements the system of environmental impact assessment with respect to construction projects. After the completion of a construction project, the competent administrative department of environmental protection will undergo an environmental protection acceptance process and assess whether the construction project has met the requirements for environmental protection.

Environmental Protection

The Environmental Protection Law (《环境保护法》), promulgated on 26 December 1989 by the Standing Committee of the National People's Congress, which became effective on 26 December 1989, as amended on 24 April 2014, establishes the legal framework for environmental protection in the PRC. The Ministry of Ecology and Environment of the State Council (the "MEE") supervises environmental protection work in the PRC and establishes national standards for the discharge of pollutants. Each of the local environmental protection bureaus is responsible for the environmental protection work within their respective jurisdictions.

Air Pollution

The Air Pollution Prevention Law (《大气污染防治法》), promulgated on 29 April 2000 by the Standing Committee of the National People's Congress, which became effective on 1 September 2000 and was amended on 29 August 2015 and became effective on 1 January 2016, establishes the legal framework for air pollution

prevention in the PRC. The MEE formulates national air quality standards. Each of the local environmental protection bureaus is authorised to regulate air pollution within each of their respective jurisdictions by formulating specific local standards and may impose penalties for violation.

Water Pollution

The Water Pollution Prevention Law (水污染防治法), promulgated on 11 May 1984 by the Standing Committee of the National People's Congress, which became effective on 1 November 1984, and last amended on 27 June 2017, establishes the legal framework for water pollution prevention in the PRC. The MEE formulates national waste discharge standards. Enterprises that discharge waste into water shall pay a treatment fee. Each of the local environmental protection bureaus is authorised to regulate water pollution within each of its respective jurisdictions by formulating more specific local standards, and may impose penalties for violation, including suspending operations.

Construction Projects

The Environmental Impact Appraisal Law (环境影响评价法), promulgated by the Standing Committee of the National People's Congress on 28 October 2002, which became effective on 1 September 2003 and was amended on 2 July 2016, Administrative Regulations on Environmental Protection of Construction Projects (建设项目环境保护管理条例), promulgated by the State Council on 29 November 1998, which became effective on 29 November 1998 and was amended on 16 July 2017, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (建设项目竣工环境保护验收管理办法), promulgated by the Ministry of Environmental Protection (now the MEE) on 27 December 2001, which became effective on 1 February 2002 and was amended on 22 December 2010, require enterprises planning construction projects to engage qualified professionals to provide assessment reports on the environmental impact of such projects. The assessment report shall be filed with and approved by the relevant environmental protection bureau prior to the commencement of any construction work. The construction project shall not commence operation, unless inspected and approved by the relevant environmental protection bureau.

1.2.3 SUSTAINABILITY STRATEGY

The Group adheres to the development concepts of “Innovation, Coordination, Green, Openness and Sharing”, and is committed to contributing to the sustainability development of local economy. The Group's approach to sustainability is to integrate sustainable development considerations into all aspects of its operations in order to provide long-term stability for our business.

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 Green 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 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
Renewable energy	<ul style="list-style-type: none"> ▪ Hydropower; <ul style="list-style-type: none"> - Multiple hydropower projects; ▪ Projects involving the upgrading of facilities/equipment (e.g. cooling system, blower, fresh air supply system) of existing developments that shall result in at least 10% improvement in energy efficiency 	 <p>7 AFFORDABLE AND CLEAN ENERGY</p>

<p>Sustainable water and wastewater management</p>	<ul style="list-style-type: none"> ▪ Construct, develop, install and operate sustainable infrastructure or equipment for collection, recycling and treatment of water and wastewater, including but not limited to: <ul style="list-style-type: none"> - Sewage treatment facility construction projects ▪ Wastewater treatment ▪ Such as achieving China Discharge standard of pollutants for municipal wastewater treatment plant (GB18918-2002) - minimum Level 1 grade B standard 	
<p>Terrestrial and aquatic biodiversity conservation</p>	<ul style="list-style-type: none"> ▪ Protection of coastal, marine and watershed environments 	 
<p>Clean transportation</p>	<ul style="list-style-type: none"> ▪ Construction and maintenance of Infrastructure for clean energy vehicles <ul style="list-style-type: none"> - electric vehicles/buses; 	

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

Eligible Social Project Categories	Eligibility Criteria & Examples	UN SDG Mapping
Affordable housing	<ul style="list-style-type: none"> ▪ Construct and operate low-cost housing, including but not limited to public rental housing (to the low-income population); 	
Affordable basic infrastructure	<ul style="list-style-type: none"> ▪ Develop and construct large-scale infrastructure projects, such as but not limited to tunnels, roads, bridges, and clean drinking water pipelines; 	

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 Investment and Financing Department, Business Management 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 equivalent amount of the net proceeds of the SFTs will be deposited in the Group's general account, which will then be earmarked for allocation to the Eligible Projects in accordance with the Framework. Net proceeds of the SFTs 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 SFTs 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 equivalents; 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:

- A list of Eligible Projects to which proceeds have been allocated with a brief description, such as energy performance data;
- The aggregate amount allocated to various Eligible 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:

Eligible Categories	Impact Indicators¹
Renewable energy	<ul style="list-style-type: none"> ▪ Annual renewable energy generation in MWh/GWh ▪ Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent
Sustainable water and wastewater management	<ul style="list-style-type: none"> ▪ Concentration of suspended solid and/or chemical oxygen demand in mg/L ▪ Annual absolute (gross) amount of wastewater treated in tonnes p.a
Terrestrial and aquatic biodiversity conservation	<ul style="list-style-type: none"> ▪ Species and number of animals and plants preserved
Clean transportation	<ul style="list-style-type: none"> ▪ Number of electric vehicles/buses
Affordable housing	<ul style="list-style-type: none"> ▪ Number of dwellings ▪ Number of individuals/families benefiting from subsidized housing
Affordable basic infrastructure	<ul style="list-style-type: none"> ▪ Number of infrastructure projects built/upgraded ▪ Kilometers of pipelines rehabilitated/constructed

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.

¹ 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