

Second-Party Opinion

Zhongliang Holdings Group

Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Zhongliang Holdings Group Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, Social Bond Principles 2020, and Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories¹ for the use of proceeds are aligned with those recognized by both the Green Bond Principles, Social Bond Principles and Green Loan Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 6, 7, 9, 11 and 12.



PROJECT EVALUATION / SELECTION Zhongliang's internal process in evaluation and selecting projects is managed by the ESG Working Group (ESGWG), which is composed of the ESG Committee and representatives from relevant departments.² The ESGWG will review and select eligible projects according to the criteria established in the Framework. Shortlisted eligible projects will be presented to Zhongliang's senior management for final approval. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Zhongliang's process for management of proceeds is overseen by the Finance team. The Company will track the allocation of proceeds using its internal system. Zhongliang is committed to allocating net proceeds to Eligible Projects on a best effort basis within one year of issuance. Unallocated proceeds may be held in cash or cash equivalents or used to repay debt not linked to emission-intensive activities. Should an asset cease to fulfil the eligibility criteria or exit the owned portfolio, Zhongliang will, on a best effort basis, substitute these projects as soon as reasonably practicable. This is in line with market practice.



REPORTING Zhongliang is committed to reporting on the allocation of proceeds on an annual basis until allocation has been fully completed. The allocation reporting will include details such as allocated, balance of unallocated proceeds and type of temporary investment, share of financing vs. refinancing. In addition, Zhongliang will strive on a best effort basis, to reporting on relevant impact indicators. Sustainalytics views Zhongliang's allocation and impact reporting as aligned with market practice.

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¹ Green Buildings, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Energy Efficiency, Renewable Energy, Clean Transportation, Affordable Basic Infrastructure, Access to Essential Services, and Affordable Housing.

² Product Research and Development Center, Operations, Marketing and Customer Service Center, Group Account, Finance, Compliance, Investor Relations and other functional departments.

Introduction

Zhongliang Holdings Group (“Zhongliang”, the “Group”, or the “Company”) is a real estate developer operating the People’s Republic of China. The Group is headquartered in Shanghai, China. The Group focuses on the development of residential properties.

Zhongliang has developed the Zhongliang Holdings Group Sustainable Finance Framework (the “Framework”) under which it intends to issue Sustainable Development Goals (SDG) Financing Transactions (“SFT”s), including green bonds, loans, and other debt financing structures, and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects which contribute to the sustainable development of China. The Framework defines eligibility criteria in nine areas:

1. Green Buildings
2. Sustainable Water and Wastewater Management
3. Pollution Prevention and Control
4. Energy Efficiency
5. Renewable Energy
6. Clean Transportation
7. Affordable Basic Infrastructure
8. Access to Essential Services
9. Affordable Housing

Zhongliang engaged Sustainalytics to review the Zhongliang Holdings Group Sustainable Finance Framework, dated March 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2018 (GBP), Social Bond Principles 2020 (SBP), Sustainability Bond Guidelines 2018 (SBG)³, and Green Loan Principles 2021 (GLP)⁴. This Framework has been published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA, and the Green Loan Principles 2021 as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.7.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Zhongliang’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Zhongliang representatives have confirmed (1) they understand it is the sole responsibility of Zhongliang to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

³ The Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁴ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#>

⁵ The Zhongliang Holdings Group sustainable finance framework is available on Zhongliang Holdings Group’s website at: <http://ir.zldcgroup.com/>

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Zhongliang.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Zhongliang has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Zhongliang Holdings Group Sustainable Finance Framework

Sustainalytics is of the opinion that the Zhongliang Holdings Group Sustainable Finance Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP and SBG. Sustainalytics highlights the following elements of Zhongliang's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories – Green Buildings, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Energy Efficiency, Renewable Energy, Clean Transportation, Affordable Basic Infrastructure, Access to Essential Services, and Affordable Housing – are aligned with those recognized by the GBP, SBP and GLP. Zhongliang's investments in these areas are expected to reduce the carbon footprint and improve the environmental performance of the Company operations, as well as improve access to basic infrastructure and essential services for the general population in China.
 - The Framework establishes a look-back period of 3 years prior to the issuance or signing date of the respective SFTs, which is in line with market practice.
 - Under the Green Building category, Zhongliang may finance or refinance investments for the construction of new buildings, renovation of existing buildings, and or refurbishments which have received or will be designed to receive any of the following minimum certification levels: LEED "Gold", BEAM Plus "Gold", BREEAM "Excellent", Chinese Green Building Evaluation Label "2 star", and other equivalent green building standards. Sustainalytics views these certifications as credible, and the levels selected as impactful (see Appendix 1 for further information on the referenced building standards). Additionally, Sustainalytics notes that Zhongliang intends to finance tenant engagement activities, such as fostering dialogues between tenants, landlord and property management companies to reduce the building's environmental impact. Sustainalytics is unable to comment on the positive environmental impact of tenant engagement activities and encourages Zhongliang to report on the positive outcomes of the finance activities.
 - Regarding Sustainable Water Management, Zhongliang may finance or refinance water saving expenditures, including rainwater harvesting, recycling water used for cooling, irrigation systems, which result in reduction of domestic and commercial water consumption.
 - Within the Pollution Prevention and Control category, Zhongliang may finance or refinance physical or electric equipment systems that are used to mitigate environmental pollution such

- as air, water, noise during the construction and/or operation of the buildings. Zhongliang has confirmed that noise control measures, are aimed at achieving green building certification standards mentioned under the Green Building category. Other eligible expenditures include: enforcement of dust control, noise reduction, construction waste and gas pollution minimization.⁷ Sustainalytics notes that these activities go above and beyond business as usual, as such these expenditures are viewed positively.
- In the Energy Efficiency category, Zhongliang may finance or refinance expenditures according to the following eligibility criteria:
 - Upgrades to existing facilities or equipment, including cooling, lift, lighting, and fresh air supply systems, which result in 10% energy consumption improvement compared to the original energy consumption, based on third-party assessment.
 - Smart technologies and/or systems for tracking, monitoring and managing energy consumption in new and existing buildings which achieve 10% energy savings compared to relevant baseline, based on third-party assessment.
 - The Company has confirmed to Sustainalytics that eligible expenditures will be limited to electric or non-motorized systems.
 - Sustainalytics views positively the Framework's inclusion of energy efficiency thresholds for the installations of energy-efficient systems, equipment, and technologies.
 - Under Renewable Energy category, Zhongliang may finance the design, construction, installation and operation of renewable energy systems, including solar photovoltaic rooftops.
 - Within Clean Transport, Zhongliang may finance supporting infrastructure for electric vehicles and hydrogen vehicles.
 - Within social use of proceeds categories, Zhongliang may finance or refinance investments and/or expenditures intended to improve access to basic infrastructure and/or essential services. Eligible projects are development in partnership with, and are provided to the government free of charge, according to the following eligibility criteria:
 - Regarding Affordable Basic Infrastructure, communal landscapes such as children's playground and rest areas are eligible.
 - In Access to Essential Services, secondary and primary schools, nursery and childcare centres, and community medical clinics and healthcare centres are eligible.
 - As for Affordable Housing, the Framework defines eligibility for resettlement housing units for rural residents affected by new real estate development. Zhongliang has confirmed that real estate development in newly urbanized areas often requires the resettlement of local populations and is carried out in partnership with local governments. To avoid displacement of local residents, real estate developers offer resettlement housing units free of charge. Additionally, rural residents affected by new real estate development are compensated from the time between vacating their homes to being resettled in new housing. Resettlement housing must meet minimum quality criteria established by the local governments and is targeted to low-income or disadvantaged rural families affected by new real estate development. The overall expenditure for this activity is not expected to exceed 4% of total bond proceeds.
 - Project Evaluation and Selection:
 - Zhongliang's internal process in evaluation and selecting projects is managed by the ESG Working Group (ESGWG), which is composed of the ESG Committee (three Executive Directors and the Chairman of Audit Committee) and representatives from the following departments: Product Research and Development Center, Operations, Marketing and Customer Service Center, Group Account, Finance, Compliance, Investor Relations and other functional departments. The ESGWG, which is led by the ESG Committee, will review and select eligible projects according to the criteria established in the Framework. Shortlisted eligible projects will be presented to Zhongliang's senior management for final approval.
 - Based on these elements, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:

⁷ Zhongliang sets up requirements of civilised construction in contracts and requires contractors to prepare a management and control plan in relation to noise, dust and other pollutions at the construction sites. Additionally, Zhongliang rewards those contractors who achieved the standard of civilised construction.

- Zhongliang’s process for management of proceeds is overseen by the Finance team. The Company will monitor and track the allocation of proceeds through its internal accounting system. The Company will establish a register to track the use of proceeds and record information relating to type of funding transaction and allocation. Zhongliang is committed to allocating net proceeds to Eligible Projects on a best effort basis within 12 months of the date of issuance. Unallocated proceeds may be held in cash or cash equivalents or used to repay existing borrowings under general credit facilities of Zhongliang Holdings Group. The Company confirmed that the repurchase of debt will not be linked to emission-intensive activities. Should an asset cease to fulfil the eligibility criteria or exit the owned portfolio, Zhongliang will, on a best effort basis, substitute these projects as soon as reasonably practicable.
- Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Zhongliang is committed to reporting on the allocation of proceeds via its Sustainability/ESG Reports, Annual Report and/or website on an annual basis until allocation has been fully completed. The allocation reporting will include details such as aggregate amount allocated to Eligible Projects, balance of unallocated proceeds and type of temporary investment, share of financing vs. refinancing, and examples of Eligible Projects subject to confidentiality disclosures. In addition, Zhongliang will strive on a best effort basis, where possible, to reporting on relevant impact indicators including, level of certification by property, avoided GHG emissions, and total volume of water recycled. For an exhaustive list of impact metrics, please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Zhongliang Holdings Group Sustainable Finance Framework aligns with the four core components of the GBP, SBP and GLP. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of Zhongliang

Contribution of Framework to Zhongliang Holdings Group’s sustainability performance

Zhongliang has committed to improving the sustainability performance of its operations, which is demonstrated by the Company’s environmental policy on pollution control and resource management which aims to minimize the Company’s impact on the environment. The Company’s environmental commitment focuses on five key areas: (i) Environmental Protection, (ii) Waste Management, (iii) Wastewater and Air Emission Management, and (v) Green Buildings. Notable environmental strategies and achievements are outlined below⁸

- With regards to green buildings, Zhongliang has more than 300 green building projects, including those which obtained green certifications or ratings, totalling more than 45 million square meters, as of December 2020. The Company is committed to further increase the share of green buildings in its portfolio. In addition, green building projects incorporate water-saving design, such as water pressure sensors to control water volume and rainwater recycling.
- As part of its efforts to minimize environmental impact from real estate development, Zhongliang introduced requirements for waste disposal, emissions, noise and dust control. For example, all contractors are required to process materials collectively to increase processing efficiency and reduce waste of materials due to improper storage.

Additionally, Zhongliang has undertaken various activities as part of its overarching social commitment of education support, disaster relief and assistance.⁸

- The Company initiated a charity program named “Zhongliang Book Reading” to support youth education in underdeveloped areas by providing charity libraries, financial assistance and improving education facilities in schools. By the end of 2020, the program was launched in over 75 schools in more than 14 provinces across the country.

⁸ Zhongliang Holdings Group Company Limited, ESG Report 2019, available at: <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0720/2020072000327.pdf>

- Zhongliang communicated to Sustainalytics that it has invested in the development of affordable housing projects and schools totalling 330,428 m² and 111,464 m², respectively.
- During the COVID-19 pandemic, the Company has made monetary and surgical masks donations to Wuhan Charity Foundation to support the medical frontline in Wuhan. In the summer of 2020, hazardous flooding took place along the Yangtze River, and as a response the Company made donations to support disaster relief activities, provided supplies to frontline rescue workers and helped affected farmers.

Sustainalytics is of the opinion that the Zhongliang Holdings Group Sustainable Finance Framework is aligned with the Company's efforts to reduce its environmental impact and initiatives and will further the Company's action on its key environmental and social priorities. Sustainalytics recognizes the importance of the practices mentioned above by Zhongliang and its management as important contributors to its sustainability performance and encourages the Company to develop timebound targets to further strengthen its environmental performance.

Well-positioned to address common environmental and social risks associated with the projects

Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are recognized by the Green Bond Principles (2018) and Social Bond Principles (2020) to have positive environmental and social impact. Nonetheless, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects, could include occupational health and safety, land use and biodiversity issues associated with large-scale infrastructure development, emissions, effluents, and waste generated in construction.

Sustainalytics is of the opinion that Zhongliang is able to manage and/or mitigate potential risks through implementation of the following:⁸

- As part of China's Environmental Impact Assessment Act, all projects related to construction, reconstruction, expansion and/or refurbishing are obliged to conduct an environmental risk assessment during the initial phase of project design and feasibility analysis. The act stipulates that the assessment must include the identification of key risk factors related to air, water, soil pollution or human health. According to Chinese law, all companies are required to undergo an assessment by an independent and certified environmental impact assessment agency in order to avoid any conflict of interest.^{9,10}
- In the context of waste management, Zhongliang requires its contractors to ensure three-stage sedimentation specification treatment before discharging wastewater and requires its contractors to separate hazardous and non-hazardous wastes and have them recycled by qualified professionals.⁸
- Zhongliang assesses new suppliers and contractors on safety production measures, incidents, non-compliance behaviour. The Company also evaluates contractors' construction site enclosures, covered trucks and materials, ground hardening and watering.⁸
- As part of its occupational health and safety measures, Zhongliang recognizes the importance of risk identification and prevention, emergency plan and accident reporting in construction process, and has formed a safety inspection team to carry out regular and irregular safety checks. Zhongliang has set up a safety experience area for employees to practice safety measurements during emergency training.⁸
- An ESG working group, composed of members from different departments such as operation, product research and development, ecological supervision, legal risk control, human resources and the president's office, has been established to conduct monitoring and reporting of the corporate's ESG performance.⁸

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Zhongliang has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

⁹ Environmental Impact Assessment in China, technical report available at: https://www.researchgate.net/publication/268503532_Environmental_Impact_Assessment_in_China

¹⁰ Environmental Impact Assessment in China, technical report available at: https://www.researchgate.net/publication/268503532_Environmental_Impact_Assessment_in_China

Section 3: Impact of Use of Proceeds

All nine use of proceeds categories are aligned with those recognized by GBP, SBP or GLP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

The role of green buildings and energy efficiency to achieve carbon neutrality in China

China is the world's largest emitter of CO₂. With 10.17 billion tons of CO₂ emitted in 2019, the Country generated approximately 28% of the world's total emissions. To follow the recommendation of IPPC to reduce CO₂ emissions and limit global warming to 1.5°C,¹¹ China aims to reach peak emissions before 2030 and carbon neutral by 2060.¹²

China's building sector makes up a significant part of its total energy consumption. According to the China Construction Energy Saving Committee, the building sector accounted for 21.11% of China's aggregate energy use, and around 19.5% of energy-related CO₂ emissions in 2017.¹³ In addition, emissions associated with the production of electricity and heat remain the biggest source of GHG emissions in the Country.¹⁴ Under the 13th Five Year Plan for Construction Development released by the State Council of China, the Chinese Government set a target of increasing the share of urban green buildings to 50% of newly built infrastructures, and the proportion of green building materials used to reach 40%. To achieve this goal, the Government promotes energy-saving and emission-reduction technologies.¹⁵ Furthermore, the National Development and Reform Commission published the 13th Five Year Plan for Energy Development (2016-2020) to advance energy efficiency and energy consumption management, which aims to achieve a reduction in energy consumption per unit of GDP by 15% compared to 2015.¹⁶

Based on the above context, Sustainalytics recognizes the importance of improving energy efficiency and promoting green buildings in the reduction of GHG emission in China. Green buildings and energy efficiency projects funded through Zhongliang's sustainable financing framework are expected to provide positive environmental impacts in China. As such, Sustainalytics is of the opinion that Zhongliang's investments have the potential to contribute to China's carbon neutral goal in 2060.

Importance of promoting sustainable water management and drought prevention in China

China's water supply is concentrated with 80% in the southern part of the country while 41% of the country's population, and 38% of agriculture in northern China face a water shortage crisis.¹⁷ In May 2020, drought in Yunnan province affected more than 3.5 million people and 623 thousand hectares of farmland, causing a loss of RMB 1.88 billion (USD 290 million). This was followed by a heatwave and low rainfall which resulted in water scarcity in Henan and Xinjiang provinces.¹⁸ To minimize the impact of uneven water distribution and its impact on urbanization, population and economic growth, China has initiated the South-North Water Diversion Project since 2014 and has transferred a total of 39.4 billion m³ of water in the past 6 years.¹⁹ Nevertheless, the World Bank has identified a need for effective management of water resources in China.²⁰

Surface water makes up 82% of China's total water supply in 2016,²¹ but due to the water shortage in northern China, sustainable management of groundwater and water from other sources is critical in the North. Research has shown a cubic unit increase in withdrawals from other sources, such as rainfall collection and

¹¹ IPPC, Special Report: Global Warming of 1.5 °C, available: <https://www.ipcc.ch/sr15/chapter/spm/>

¹² BBC, Climate change: China aims for 'carbon neutrality by 2060, 2020, available: <https://www.bbc.com/news/science-environment-54256826>

¹³ China Construction Energy Saving Committee, China Construction Energy Consumption Report 2019, to be retrieved at: <http://www.cabee.org/site/content/23565.html>

¹⁴ <https://ourworldindata.org/co2/country/china?country=~CHN>

¹⁵ The State Council of China, 13th Five Year Plan for Construction Development 2017, at: <http://www.mohurd.gov.cn/wjfb/201705/W020170504041246.pdf>

¹⁶ Energy Charter Secretariat, China Energy Efficiency Report (2018), at: https://energycharter.org/fileadmin/DocumentsMedia/EERR/EERChina_ENG.pdf

¹⁷ Latham's Environment, Land & Resources, China Faces Serious Water Supply Problems, available: <https://www.globalelr.com/2018/06/china-faces-serious-water-supply-problems/#:~:text=However%2C%20the%20main%20problem%20facing,supply%20lies%20in%20southern%20China.&text=Eight%20of%20these%20provinces%20are,two%20provinces%20are%20largely%20desert>

¹⁸ Xinhua, While Rainstorm hit the South, Heatwave hit the North, available: http://www.xinhuanet.com/2020-06/09/c_1126089619.htm

¹⁹ Xinhua, South-North Water Diversion Project, available: http://www.xinhuanet.com/politics/2020-12/12/c_1126853246.htm

²⁰ The World Bank, "China: A Watershed Moment for Water Governance", (2018), at: <https://www.worldbank.org/en/news/pressrelease/2018/11/07/china-a-watershed-moment-for-water-governance>

²¹ China Water Crisis, China's Water Sources, <https://www.chinawaterrisk.org/the-big-picture/chinas-water-sources/>

recycled wastewater, results in about 3% change in gross water supply in China, and has large potentials to contributing to total water supply in China.²²

Based on the above, Sustainalytics is of the view that Zhongliang's Green Financing under the Framework related to sustainable water management has the potential to provide positive environmental impact on improving the efficiency of water management in China.

Importance of financing affordable housing in China

China's urban population is growing at a rate of 2.3% annually and accounts for 60% of the total population causing pressure on housing in cities.²³ It is estimated that the average national house price increased by 250% between 2000 and 2010.²⁴ The boom in housing price has led to a large gap between housing affordability and salary. The average price of a two-bedroom unit costs USD 900,000 in a city with per capita income of USD 20,000.²⁵ Despite the fact there is a severe shortage of affordable housing and 17% of urban households are living in dwellings less than 13 m² per person, affordable housing only accounts for about 5% of the total housing stock in one-third of Chinese cities.²⁶ To tackle the housing difficulty for middle- to low-income urban households, the Chinese government continues to promote low-rent public or social housing in urban areas and formulates policies that define the ratio of public rental house in commercial housing project based on local context.²⁷

Sustainalytics is of the opinion that Zhongliang's investments in affordable housing and basic infrastructure has the potential to contribute to solving the problem of affordable housing in China.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the Zhongliang Holdings Group Sustainable Finance Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	11. Sustainable Cities and Communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.
Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Renewable Energy	7. Affordable and Clean Energy	7.2 Increase the share of renewable energy in the global energy mix.

²²T. BilalibUdimal, Zhuang J., E.I CaesarAyamba, S. Owusu, China's water situation; the supply of water and the pattern of its usage , 2017, available at: <https://www.sciencedirect.com/science/article/pii/S2212609017300924>

²³ World Bank, Urban Population – China, https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=CN&most_recent_value_desc=true

²⁴ China Dialogue, Lack of affordable housing threatens China's urban dream, September 2013, at: <https://chinadialogue.net/en/cities/6365-lack-ofaffordable-housing-threatens-china-s-urban-dream/>

²⁵ Bloomberg CityLab, Workers Flocking to China's Tech Hub Can't Afford to Buy Homes, available: <https://www.bloomberg.com/news/features/2020-12-20/workers-flocking-to-china-s-silicon-valley-can-t-afford-to-buy-homes>

²⁶ 7 Lincoln Institute of Land Policy, Affordable Housing in China, January 2011, at: <https://www.lincolnst.edu/publications/articles/affordable-housingchina#:~:text=One%2Dthird%20of%20the%20cities,China%20further%20aggravates%20this%20problem>

²⁷ Ministry of Housing and Urban-Rural Development, Opinions of the four departments on further regulating the development of public rental housing, May 2019, at: http://www.gov.cn/xinwen/2019-05/19/content_5392886.htm

Clean Transportation	9. Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure.
Affordable Basic Infrastructure	11. Sustainable Cities and Communities	11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities.
Access to Essential Services	3. Good Health and Well-being	3.7 By 2030, ensure universal access to sexual and reproductive health-care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

Conclusion

Zhongliang has developed the Zhongliang Holdings Group Sustainable Finance Framework under which it will issue sustainability bonds and/or loans and use the proceeds to finance green building, sustainable water management, pollution prevention, energy efficiency, renewable energy, clean transportation and affordable basic infrastructure and housing projects. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to provide positive environmental and social impact.

The Zhongliang Holdings Group Sustainable Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Zhongliang Holdings Group Sustainable Finance Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 6, 7, 9, 11 and 12. Additionally, Sustainalytics is of the opinion that Zhongliang has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Zhongliang Holdings Group is well-positioned to issue sustainability bonds and that that Zhongliang Holdings Group Sustainable Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018), Social Bond Principles (2020) and Green Loan Principles (2021)

Appendices

Appendix 1: Overview and Assessment of Green Building Certification Schemes





	LEED²⁸	HK BEAM Plus²⁹	BREEAM³⁰	China Three Star³¹
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	BEAM Society Limited (BSL), owner of the Building Environmental Assessment Method (BEAM), is a public body established in 2010. It owns BEAM Plus - a green building assessment tool tailor-made for the high-rise, high density-built environment of sub-tropical climate in Hong Kong.	Building Research Establishment Environmental Assessment Method (BREEAM) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK, BREEAM is used for new, refurbished and extension of existing buildings.	The Chinese 3-Star Green Building Standard is a Certification System used in China for residential and public buildings (including commercial, hotel and government-owned) that was introduced in 2006 by MOHURD (Ministry of Housing and Urban-Rural Development).
Certification levels	Certified Silver Gold Platinum	Bronze Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	1-Star 2-Star 3-Star
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> • Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency • Indoor environmental quality • Innovation in Design • Regional Priority 	<ul style="list-style-type: none"> • Site Aspects (location and design of building, emissions from the site, site management) • Materials Aspects (selection of materials, efficient use of materials, waste disposal and recycling) • Energy Use (annual CO2 emissions or energy use, energy efficient systems and equipment, energy management) • Water Use (water quality, water conservation, effluent discharges) • Indoor Environmental Quality (IEQ) 	<ul style="list-style-type: none"> • Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste • Health and Wellbeing • Innovation 	<ul style="list-style-type: none"> • Land savings and outdoor environment • Energy savings and utilization • Water savings and utilization • Material savings and utilization • Indoor environment • Operations and management.

²⁸ Leadership in Energy and Environmental Design, at: <https://new.usgbc.org/leed>

²⁹ Hing Kong, Building Environmental Assessment Method, at: <https://www.hkgbc.org.hk/eng/beam-plus/beam-plus-new-buildings/>

³⁰ BREEAM, Building Research Establishment LTD, at: <https://breeam.com/>

³¹ Chinese Green Building Evaluation Label (China Three Star), at: <http://www.gbig.org/collections/14970%22>

<p>Requirements</p>	<p>Prerequisites (independent of level of certification) + Credits with associated points</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Prerequisites for each performance area + Credits with associated points</p> <p>Detailed compliance with legal requirements is a prerequisite for the award of credits.</p> <p>For every performance area BEAM prescribes different prerequisites. Every applicable prerequisite in every BEAM category must be achieved for the project to be assessed.</p> <p>Credits are allocated for each performance area, and every area is weighted as per international consensus. The Overall Assessment Grade is determined by the percentage (%) of the applicable credits gained under each performance category and its weighting factor.</p> <p>Verification of compliance with BEAM criteria is done by an independent BEAM Assessor.</p>	<p>Prerequisites depending on the levels of certification + Credits with associated points</p> <p>This number of points is then weighted by item³² and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>Prerequisites</p> <p>The system functions on a checklist basis, with 1-Star buildings meeting 26 criteria, 2-Star an additional 43 items, and 3-Star on a further 14 items. Criteria and weighting differ for public and residential buildings. In public buildings, more weight is given to energy and material savings, while the standard for residential buildings places greater importance on urban land saving and outdoor environments.</p>
<p>Performance display</p>				

Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

<p>Issuer name:</p>	<p>Zhongliang Holdings Group</p>
<p>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</p>	<p>Zhongliang Holdings Group Sustainable Finance Framework</p>
<p>Review provider's name:</p>	<p>Sustainalytics</p>

³² BREEAM weighting: Management 12%, Health, and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item.

Completion date of this form: April 15, 2021

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories³³ for the use of proceeds are aligned with those recognized by both the Green Bond Principles, Social Bond Principles and Green Loan Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 6, 7, 11 and 12.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
|--|---|

³³ Green Buildings, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Energy Efficiency, Renewable Energy, Clean Transportation, Affordable Basic Infrastructure, Access to Essential Services, and Affordable Housing.

- | | |
|--|--|
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Zhongliang's internal process in evaluation and selecting projects is managed by the ESG Working Group (ESGWG), which is composed of the ESG Committee and representatives from relevant departments.³⁴ The ESGWG will review and select eligible projects according to the criteria established in the Framework. Shortlisted eligible projects will be presented to Zhongliang's senior management for final approval. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|--|--|
| <input type="checkbox"/> Credentials on the issuer's social and green objectives | <input type="checkbox"/> Documented process to determine that projects fit within defined categories |
|--|--|

³⁴ Product Research and Development Center, Operations, Marketing and Customer Service Center, Group Account, Finance, Compliance, Investor Relations and other functional departments.

- | | |
|---|--|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

Zhongliang's process for management of proceeds is overseen by the Finance team. The Company will track the allocation of proceeds using its internal system. Zhongliang is committed to allocating net proceeds to Eligible Projects on a best effort basis within one year of issuance. Unallocated proceeds may be held in cash or cash equivalents or used to repay debt not linked to emission-intensive activities. Should an asset cease to fulfil the eligibility criteria or exit the owned portfolio, Zhongliang will, on a best effort basis, substitute these projects as soon as reasonably practicable. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section *(if applicable)*:

Zhongliang is committed to reporting on the allocation of proceeds on an annual basis until allocation has been fully completed. The allocation reporting will include details such as allocated, balance of unallocated proceeds and type of temporary investment, share of financing vs. refinancing. In addition, Zhongliang will

strive on a best effort basis, to reporting on relevant impact indicators. Sustainalytics views Zhongliang’s allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Sustainability Bond financed share of total investment
- Other (please specify): Balance of unallocated proceeds

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Number of beneficiaries
- Target populations Other ESG indicators (please specify):

Eligible Categories	Impact Indicators
Green Buildings	<ul style="list-style-type: none"> • Level of certification by property • Energy efficiency gains in MWh or % vs. baseline • Estimated avoided GHG emissions (tCO2eq) • Annual energy savings (MWh pa) • Annual reduction in water consumption
Energy Efficiency	<ul style="list-style-type: none"> • Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings) • Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent
Pollution Prevention and Control	<ul style="list-style-type: none"> • Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or in absolute amount in tonnes p.a. • Amount of waste reused or recycled (tons or in % of total waste)
Sustainable Water Management	<ul style="list-style-type: none"> • Amount of water recycled (litres) • Amount of water reused (litres)
Climate Change Adaptation	<ul style="list-style-type: none"> • GHG emissions avoided / reduced (tCO2e) • Number of technologies applied • Number of flood prevention facilities built

Access to Basic Infrastructure and Essential Services Affordable Housing	<ul style="list-style-type: none"> • Social impact indicators* and their methodologies; • Projected social impact (verified by a third-party whenever possible); and • Expected and additional social benefits.
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Frequency:

- Annual
 Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
 Information published in ad hoc documents
 Other (please specify):
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion)
 Certification
 Verification / Audit
 Rating
 Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer’s overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially

sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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Named
2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider

