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Second Party Opinion

Huzhou Wuxing Traffic and Tourism Investment Development Group Co. Ltd.'s Sustainable Finance Framework

Jun. 14, 2023

First established as Huzhou Wuxing Xishan Pan Tourism Development Co. Ltd. in 2015, Huzhou Wuxing Traffic and Tourism Investment Development Group Co. Ltd. (Huzhou Wuxing) acts as a governmental platform to undertake transportation, infrastructure, and tourism projects in Wuxing district of Huzhou city, China. The company is wholly owned by the Wuxing Service Centre and is indirectly owned by the Huzhou Wuxing District Finance Bureau.

In our view, Huzhou Wuxing's sustainable finance framework, published in June 2023, is aligned with:

- ✓ Social Bond Principles, ICMA, 2021 (with June 2022 Appendix 1) (SBP)
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023 (SLP)
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1) (GBP)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023 (GLP)
- ✓ Sustainability Bond Guidelines, ICMA, 2021 (SBG)

Issuer's Sustainability Objectives

Huzhou Wuxing aims to promote sustainable development in the region by embedding the concepts of environmental protection and social well-being into all its projects. The company is the enabler of local development in Wuxing under the leadership of the Huzhou Wuxing District Finance Bureau. It has several social and environmental commitments, such as enhancing public service capabilities, and upgrading public infrastructure relating to resource conservation and pollution prevention and control etc.

Huzhou Wuxing has developed this sustainable finance framework to issue sustainable financing instruments (SFIs), including bonds, loans, and other debt-like instruments, and to fund projects that align with the company's mission to advance sustainably economic development in Wuxing.

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Second Party Opinion Summary


Use of proceeds

Alignment  Huzhou Wuxing’s sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Score Not aligned **Aligned** Strong Advanced

Huzhou Wuxing commits to allocating an amount equal to the net proceeds of the financing raised under the framework exclusively to eligible projects that contribute to specific environmental or social objectives and to some of the U.N. Sustainable Development Goals (SDGs). Reporting will include the share of financing versus refinancing. The look-back period for refinanced projects will not exceed three years from the time of issuance.


Process for project evaluation and selection

Alignment  Huzhou Wuxing’s sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Score Not aligned **Aligned** Strong Advanced


Huzhou Wuxing’s framework outlines the process to select and approve eligible projects. The company's cross-departmental sustainability project work group (SPWG) will meet at least annually to discuss and select projects according to the framework's eligibility and exclusion criteria. Huzhou Wuxing will rely on each eligible project’s feasibility report, comprising an environmental and social impact assessment, to identify and manage the associated environmental and social risks.

Management of proceeds

Alignment  Huzhou Wuxing’s sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Huzhou Wuxing will deposit the net proceeds of the SFIs in its general funding account and maintain a register to track the allocation of proceeds. The company commits to adjusting the balance of net proceeds to match allocations to eligible projects during the time the instrument is outstanding. Unallocated proceeds will be held in short-term time deposits, and the temporary placement will be disclosed.

Reporting

Alignment  Huzhou Wuxing’s sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Score Not aligned **Aligned** Strong Advanced

Huzhou Wuxing commits to disclosing the allocation of net proceeds and the actual impacts of the financed projects annually until the full allocation of net proceeds. This information will be publicly available.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Huzhou Wuxing’s sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Commitments score

Not aligned **Aligned** Strong Advanced

We consider Huzhou Wuxing’s overall use of proceeds commitments to be aligned.

The company commits to allocating an amount at least equivalent to the net proceeds of financings issued under the framework exclusively to finance or refinance eligible projects within two years of issuance.

The framework has three eligible categories-- affordable basic infrastructure, environmentally sustainable management of living natural resources and land use, and energy efficiency. Each category is tied to a public project in Huzhou city--the Xisai Science Valley Innovation Field Project, the Miaoxi Ten Thousand Mu Tea Garden Reconstruction Project, and the Taihu Laboratory Project.

Each category contributes to at least one environmental or social objective and supports specific U.N. SDGs. For example, the Xisai Science Valley Innovation Field Project provides affordable basic infrastructure by financing the construction of rural roads and a sewage pipeline network, benefiting the residents and businesses (including small and midsize enterprises) in the relatively undeveloped and remote areas around the Xisai and Miaofeng mountain.

Similarly, the Miaoxi Ten Thousand Mu Tea Garden Reconstruction Project contributes to natural resource conservation through improvements in farming practices at the village tea gardens. Soil improvement works will be done based on the existing land conditions of the tea gardens , such as returning eroded land to forests.

The Taihu Laboratory Project contributes to climate change mitigation by financing the installation of energy-efficient equipment in the laboratory. However, the broad definition of project eligibility, the absence of quantified minimum performance thresholds, and the breadth of Huzhou Wuxing’s activities mean the net proceeds could fund projects with lesser impact while staying within the framework’s eligibility criteria.

Huzhou Wuxing will disclose the share of financing versus refinancing of the proceeds in its allocation reporting. The look-back period for refinanced projects will not exceed three years from the time of issuance. While this is market standard, shorter maximum look-back periods are a better practice, in our view.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For the process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Huzhou Wuxing’s sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Commitments score

Not aligned **Aligned** Strong Advanced

We consider Huzhou Wuxing’s overall process for project selection and evaluation commitments to be aligned.

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The framework clearly describes the process to determine how projects fit within eligible categories. The company has set up a SPWG, consisting of members from various functions such as finance, design, project management, and risk control and legal audit. The SPWG will meet at least annually to discuss and select projects according to the framework's eligibility criteria. The selection of eligible projects will also be guided by Huzhou Wuxing's risk management and internal control systems and policies. The company commits to not allocating proceeds to activities on the latest International Finance Corporation's exclusion list. Such activities include weapons, alcohol, tobacco, gambling, radioactive materials, and forced or child labor.

The framework also details Huzhou Wuxing's processes to identify and manage environmental and social risks associated with the financed projects. A feasibility study, comprising an environmental and social impact assessment, will be conducted for each eligible project to ensure that effective protection measures and controls are in place.

Huzhou Wuxing references local definitions or guidelines (such as the announcement of the Ministry of Finance and the State Administration of Taxation, and Zhejiang Province's Technical Specifications For Comprehensive Control Of Water And Soil Erosion) as part of the eligibility criteria for projects. The energy efficiency ratio of any on-site equipment must meet the requirements of the Design Standards for Energy Conservation of Public Buildings in Zhejiang province. The eligibility criteria could be better defined by specifying minimum quantitative thresholds to transparently communicate the environmental benefits. It is common to reference local definitions to identify the target population for social projects. However, the framework's environmental project does not incorporate any market-based taxonomies or certifications that contain quantitative thresholds. The use of such thresholds is a better market practice, in our view.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Huzhou Wuxing's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

The net proceeds of each SFI will be deposited in Huzhou Wuxing's general funding account and earmarked for allocation to eligible projects. The company will maintain a register to track the allocation of proceeds. It commits to track the proceeds and adjust the balance of net proceeds to match allocations to eligible projects during the time the instrument is outstanding.

Pending allocation, unallocated proceeds will be held in short-term time deposits, in line with market practice. The company also commits to not invest unallocated proceeds in any activities that conflict with the eligibility criteria of this framework. The types of temporary placement of unallocated proceeds will be disclosed.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Huzhou Wuxing's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Huzhou Wuxing's overall reporting practices to be aligned.

Second Party Opinion

The company commits to reporting the allocation of the net proceeds, and the impact of the financed projects. It will report the information on an annual basis until the net proceeds are fully allocated. This information will be available on public websites, such as that of the local government.

Allocation reporting will include a brief description of financed projects, the share of financing versus refinancing, the aggregate amount of allocated proceeds, and its geographical distribution, details of outstanding SFIs, the target population, and the balance of unallocated proceeds, among others.

In addition, the company will disclose the actual impact of the financed projects. Impact indicators include the share of people with access to public transport, the area of improved and transformed tea gardens, the area coverage with energy-efficient equipment, among others.








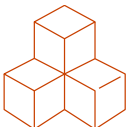
While including impact indicator calculation methodologies and key assumptions will add transparency to the company's impact reporting practices, Huzhou Wuxing will consider, rather than commit to, aligning with the International Capital Market Association (ICMA)'s Harmonized Framework for Impact Reporting. The issuer also does not commit to an independent review of any post-issuance reporting.

Mapping To The U.N.'s Sustainable Development Goals

The SDGs, which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Huzhou Wuxing's sustainable finance framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Affordable basic infrastructure			
	*6. Clean water and sanitation	8. Decent work and economic growth	*9. Industry, innovation and infrastructure
Environmentally sustainable management of living natural resources and land use			
	*2. Zero hunger	8. Decent work and economic growth	*15. Life on land
Energy efficiency			
	*8. Decent work and economic growth	*9. Industry, innovation and infrastructure	

*The eligible project categories link to these SDGs in the ICMA mapping.

Second Party Opinion

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