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Second Party Opinion

Jinan High-tech Holding Group Co. Ltd. Social Finance Framework

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Location: China

Sector: Engineering and Construction

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

See [Alignment Assessment](#) for more detail.

Strengths

Jinan High-tech Holding Group Co. Ltd. (JHHG) contributes to the implementation of social policies in Jinan city. In particular, the company supports the local government's mandate to develop affordable housing.

Weaknesses

No weakness to report.

Areas to watch

The price and financing terms of affordable housing units will be project specific, with no standard discount to market price. JHHG, however, will follow the local government's guidance on setting prices and commits to keeping rental costs at below 90% of market prices.

JHHG's disclosures on its sustainability performance are limited at this stage. It is unclear how the company manages social and environmental considerations beyond eligible projects under this framework. This is common for Chinese local government-owned entities.

Short-term instruments could be issued under the framework. Reporting on these instruments may be challenging due to their short tenor. JHHG does not have specific plans to issue such instruments in the foreseeable future. If such instruments were issued, we expect the company would provide allocation and impact reporting within the lifetime of the instruments.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

JHHG is a Chinese local government-related entity established in 2005. It is based in the Jinan city of Shandong province and is wholly owned by the Jinan Municipal People's Government State-owned Assets Supervision and Administration Commission. JHHG helps to enable government policies and thus plays an important role in promoting the socioeconomic development of Jinan city.

The company primarily engages in industrial park investment and operations. This accounted for 53% of Chinese renminbi (RMB) 38 billion revenue (US\$5.34 billion) for the six months ended June 30, 2024. Other revenue comes from gold mining businesses in Australia (21%), industrial park supporting services (14%), and industrial park residential development (5%). The remaining small portions come from land consolidation, IT hardware and services, and other businesses (notably the trading of coal, iron ore, ethylene glycol, among other commodities, and finished goods).

Material Sustainability Factors

Workforce health and safety

Construction sites can expose workers to heightened safety risks from use of heavy machinery, falls from height, hazardous chemicals, and other potentially dangerous situations. These may translate into fatality and injury rates that are high relative to other sectors. The reliance on temporary employees and subcontractors also poses risks because safety protocols for such employees could be lax. Larger companies are typically less affected because of more comprehensive and systematic training, policies, and standards. China has ratified six occupational safety and health international labor conventions. The State Council's Work Safety Commission issued a three-year action plan in 2024, to strengthen workplace safety through measures such as safety education and training, improvement of hazard assessment system, upgrades of technology support, and law enforcement and assistance.

Access and affordability

Low housing stock and lack of affordable options can severely influence livelihoods, especially for the vulnerable, low-income population, leaving them to face the threat of homelessness. Access and affordability are especially important for tenants, for whom rent can account for a large portion of income. Lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities. In China, average new house prices in 100 major cities amounted to RMB16,244 (US\$2,244) per square meter in January 2024 as per the China Index Academy, while the country's GDP per capita is US\$13,140 in April 2024, according to the International Monetary Fund.

Climate transition risk

Engineering and construction companies contribute to global climate change mainly through embedded carbon in key materials such as steel and concrete, and the greenhouse gas emitted during the project-use phase, levels of which vary widely. Clients are more focused on lowering their greenhouse gas emissions, making climate transition risk an important stakeholder consideration. Entities could be exposed to reputational risks if they participate in the most carbon-intensive projects. Incremental climate-related investments can require significant capital outlays but will potentially reduce the risk of obsolescence due to changes in regulation or climate goals. In addition, low-carbon properties may achieve higher cost efficiencies or attract premium rents in the longer term, therefore enhancing value. China has national commitments to reach peak carbon emissions before 2030 and achieve carbon neutrality by 2060.

Physical climate risk

Physical climate risk is a material sustainability factor because of the potential damage to assets, and disruptions to many stakeholders and to operations. Acute physical risks--such as typhoons, storms, and floods--can impair, disrupt, or even destroy assets and affect the availability of essential infrastructure. Over time, chronic risks such as an increase in precipitation or rising sea levels, necessitate designing and building infrastructure that is resilient to known and projected climate hazards. Severe weather events can add risks during the construction phase. Acute and chronic risks could damage properties or place tenant health and safety at risk. They could also require investments to manage potential effects or, in severe cases, relocation of tenants. The likelihood of damage to assets due to extreme weather increases without adaptation, more so in regions exposed to climate hazards. Unabated climate change could lead to GDP losses of 0.5%-2.3% as early as 2030 for China, according to the World Bank. Chinese provinces account for half of the most exposed global regions to extreme weather events by 2050.

Issuer And Context Analysis

The framework's eligible projects cover access to affordable housing, which corresponds to one of the company's material sustainability factors. Through the development of affordable and resettlement housing, JHHG aims to contribute to the country's housing security system and alleviate housing difficulties. The company follows the local government's guidance to set the price and financing terms of these housing units.

While JHHG's core sustainability objective is to enable low-carbon economy, it still yet to set decarbonization targets. JHHG's commodity trading segment indirectly facilitates the use of coal, including in power plants, which may impede a low-carbon transition. Although the share of this segment has been declining in its revenue (from 50% in 2021 to 12% in 2023), there is no plan to reduce its products use scope 3 emissions. JHHG relies on third-party feasibility studies and impact assessments to establish systems to manage adverse climate impacts to its operations and assets. The company has limited disclosure on how it addresses climate transition and physical climate risks in general, beyond compliance with local regulations.

Workforce health, safety, and working conditions are important topics in construction activities. The company has incorporated these considerations into its contractor selection process. For instance, contractors are required to provide safety training and conduct regular safety inspection and monitoring. The company will also rely on feasibility studies to identify and manage potential social risks, which is a standard procedure for development projects in China. Beyond these practices, JHHG's strategy and commitments in this regard appear limited to abiding by laws and regulations.

JHHG's disclosures on its sustainability performance are limited at this stage. This lack of transparency is largely comparable to that for other local government-owned entities in China. Insight is limited on the company's agenda to address its material sustainability factors and how its operations beyond eligible projects may affect its consolidated sustainability performance. Apart from the annual commitment to disclose the expected and actual impact of financed projects, there are no concrete plans or timeline for disclosing more comprehensive information.

Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond and Loan principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

The framework's social category is aligned with the Principles, and JHHG commits to allocate the net proceeds issued under the framework exclusively to eligible social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds. Other forms of debt instruments such as short-term instruments (e.g. commercial paper and revolving credit facilities) could be issued under the framework. However, JHHG does not have specific plan to issue such instruments in the foreseeable future.

The company will disclose the proportion of financing versus refinancing in its allocation reporting. The maximum look-back period for refinanced projects is three years after issuance, in line with market practice.

✓ Process for project evaluation and selection

The main body for project selection and evaluation in JHHG is a social work group (SWG) that comprises representatives from planning and development, financial management, capital management, audit and supervision, human resources, and general management functions. The SWG will meet at least annually to screen the potential projects based on the framework's eligibility criteria. The identification and management of potential social and environmental risks (e.g., compliance with environmental and social regulations, impacts on local communities, social well-being) related to projects will be part of the projects' feasibility reports. Shortlisted projects will then be presented to the board of directors for approval. The framework includes exclusion criteria that reference the International Finance Corp.'s exclusion list, covering topics such as weapons and munitions, alcoholic beverages, tobacco, and gambling.

✓ Management of proceeds

The net proceeds or an equal amount to the net proceeds will be deposited in the company's funding accounts. JHHG will maintain a register to track the allocation of proceeds. The company commits to periodically adjusting the tracked net proceeds to match allocations to eligible projects during the time the instrument is outstanding. Pending allocation, unallocated proceeds will be invested in treasury bonds, policy bank financial bonds, local government bonds, and cash deposits.

✓ Reporting

JHHG commits to report annually on the allocation of the net proceeds and on the financed projects' impact, until full allocation of the net proceeds. The information will be available on the company's website or annual report. Allocation reporting will include the aggregate amount allocated, share of financing versus refinancing, brief description of the projects, and target populations. Meanwhile, impact reporting will include the actual and expected impacts of the financed projects. Impact indicators include the number of affordable housing units constructed, number of individuals benefitted, and the rental cost or purchase price compared with the private market.

Reporting on short-term instruments may be challenging due to their tenor. We expect that should these instruments be issued, the company will provide allocation and impact reporting within the lifetime of the instrument.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Over the two years following issuance of the financing, JHHG will allocate all the net proceeds to refinancing affordable housing projects.

Affordable housing

- Expenditures related to construction, maintenance, and upgrading of affordable houses or resettlement housing projects according to government policies.
- The government will decide the price and financing terms and ensure that they will be in line with the market.
- The return from such projects is meager and much lower than the market return.

Analytical considerations

- The construction, maintenance, and upgrade of affordable and resettlement housing helps improve housing conditions for low-income households. It aligns with the housing-security initiative under China's 14th Five-Year Plan and the "Three Major Projects" initiative. Announced in 2023, the latter's three pillars are affordable housing, rural vitalization, and public infrastructure for normal and emergency use (see "[China LGFV's Bigger Housing Role: Risk Control Matters](#)," published March 27, 2024).
- The price and financing terms of housing units will be set by the local government. Every housing project will have different price and financing terms, following the government's guidance. The rental will be calculated by the appointed real estate appraisal agency. JHHG communicated that the rental cost of housing units will be below 90% of the market price, but the extent of discount is unknown. Meanwhile, residents do not need to pay for resettlement housing.
- The target population definition references the guidance of the Jinan Municipal Housing and Urban-Rural Development Bureau, adding credibility to the eligibility criteria. It covers permanent residents of Jinan city who belong to the classifications of low-middle income group or low-income group. Low-middle income refers to having an annual income between 60% to 80% of the local per capita disposable income of the previous year while low-income group means having an annual income lower than 60% of that. As of February 2024, the 60% and 80% boundaries of per capita annual disposable income of Jinan city are RMB37,504 (US\$5,261) and RMB50,005 (US\$7,014), respectively.
- The development of affordable properties or resettlement housing may involve the relocation of existing residents. JHHG confirms that all demolition and relocation processes comply with relevant laws and regulations, as well as government guidance through signing the commission agreement. The company will systematically use feasibility studies covering the identification and assessment of potential impacts on the community such as displacement, employment opportunities, and social well-being.
- The construction of residential units raises the issue of real estate's climate resilience and climate transition. While the framework does not set out specific performance criteria for the housing units, the feasibility studies will include potential negative environmental impacts. JHHG also has incorporated some environmental considerations into its contractor selection process for waste management, pollution control, biodiversity, and compliance with relevant regulatory requirements.

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

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Affordable housing	 *1. No poverty  *11. Sustainable cities and communities

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

Related Research

- [China LGFVs' Bigger Housing Role: Risk Control Matters](#), March 27, 2024
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds SPOs](#), July 27, 2023
- [ESG Materiality Map: Engineering And Construction](#), Oct. 6, 2022

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