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Second Party Opinion

Far East Horizon Ltd. Sustainable Financing Framework

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Location: Hong Kong

Sector: Financial Services

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

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

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

Strengths

Far East Horizon Ltd. (FEH)'s eligible social projects aim to provide benefits that are aligned with China policies. In particular, the company's social projects support the national government's mandate to provide affordable loans to micro and small enterprises and give communities access to basic infrastructure, public education, and health care services.

Weaknesses

Social projects are broadly defined and have limited safeguards on environmental risks. Moreover, social impact indicators are largely based on outputs (such as number of beneficiaries) rather than outcomes.

Areas to watch

The framework's eligibility criteria are broad, and do not specify minimum quantitative performance indicators for all green eligible projects. The absence of performance thresholds for some categories limits insights on the projects' potential benefits. In addition, proceeds may be used to finance projects using fossil fuel-based equipment, which undermine their climate benefits.

FEH is at an early phase of measuring and managing its financed carbon footprint. However, the company aims to reach carbon neutrality across all emissions by 2050. It assessed its financed emissions in 2023, but does not publish its scope 3 emissions. This limits insights on its carbon footprint. Similarly, it is yet to systematically measure its lessees' exposure to physical climate risks.

Eligible Green Projects Assessment Summary

Over the two years following issuance of the financing, FEH expects to allocate the entire proceeds to refinancing. It will direct around half of proceeds to sustainable water and wastewater management, 20% each to renewable energy and clean transportation, and the remaining to accessible health care, and education projects.

Eligible green projects under FEH's sustainable financing framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Renewable energy Dark to Medium green

Generation, transmission, and production of parts and equipment that facilitates the adoption of renewable energy (i.e. wind, solar, and hydropower)

Construction, operation, maintenance, and upgrade of facilities and infrastructure for renewable energy generation

Clean transportation Medium green

Construction, maintenance, and research and development of zero direct emission (i.e. electric and green hydrogen) transportation facilities

Manufacture of key assets, systems, and components dedicated to zero direct emission vehicles and vessels

Development and the construction of infrastructure dedicated to the charging of electricity and alternative fuels

Sustainable water and wastewater management Medium to Light green

Wastewater collection, treatment, and recycling technologies and infrastructures

Technologies and facilities to promote water saving and sustainable water management that meet specified thresholds

Green buildings Light green

Green buildings that have or expected to receive regional, national, or international certifications, which will be applicable to hospitals, schools, or other buildings for commercial purposes

Energy efficiency Medium to Light green

Renovation or repair work for which the energy efficiency of the renovated or repaired portion of the project has improved for at least 30% upon the completion of work and is certified by an independent third party

Construction, operation, maintenance, and upgrade of smart power grids, power storage systems, smart metering systems, and other smart electricity systems that manage intermittency of renewables

Pollution prevention and control Medium green

Construction, operation, and maintenance of facilities, systems, or equipment for waste management and recycling

Construction, operation, and maintenance of waste-to-energy projects that meet the specified thresholds

See [Analysis Of Eligible Projects](#) for more detail.

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

Incorporated in 2008, FEH is a diversified financial institution operating in two major segments-- financial services and advisory; and industrial operation and management. The former mainly includes financial leasing, factoring, entrusted loans, and some advisory services to various sectors, such as urban public utility, health care, tourism, engineering construction, machinery, chemical and medicine, electronic information, public consuming, and transportation and logistics. The latter mainly covers operating leases for construction equipment, and hospital operations.

Headquartered in Hong Kong, FEH has three major operation centers in Shanghai, Tianjin, and Guangzhou, and offices in over 30 cities in China. The company was listed in the Hong Kong Stock Exchange in 2011. In the six months ending June 30, 2024, FEH had a total revenue of Chinese Renminbi (RMB) 18 billion (US\$2.5 billion), and total asset of RMB361 billion (US\$51 billion). Financial services and advisory contributed to 60% of revenue, while industrial operations took up the remaining 40%. Within industrial operations, equipment and hospital operations accounted for around 70% and 30% respectively.

Major shareholders of FEH include the Sinochem Group Co. Ltd., and FEH's internally vested interest group headed by its chairman and CEO Mr. Kong Fanxing, both with 21% stakes in the company.

Material Sustainability Factors

Climate Transition Risk

Financial institutions are highly exposed to climate transition risk through their financing of economic activities, which affect the environment. While direct environmental impact from financial institutions is relatively small compared with their financed emissions and stems mainly from power consumption (e.g. offices and branches), their exposure from financed emissions is substantial. In engineering and construction, high embedded carbon emissions in materials like steel and concrete, and greenhouse gas emissions during project use, introduce significant climate risks. Health care activities can impact the environment, and emission-reduction policies may heighten risks for institutions with high-emission exposures. Emission-reduction policies may increase credit, legal, and reputational risks for institutions heavily exposed to high-emitting sectors, with these risks growing as climate change impacts the economy. On the other hand, financing climate transition presents growth opportunities through lending, debt structuring, and capital markets. China has national commitments to reach peak carbon emissions before 2030 and achieve carbon neutrality by 2060.

Physical Climate Risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Financial institutions finance a wide array of industries that are exposed to physical climate risks. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of financial institution's exposure is linked to the geographical location of the activities and assets they finance. Infrastructure and operations of engineering and construction, as well as health care could face potential damages and disruptions to services. Similarly, FEH's physical footprint (e.g. offices and branches) may also be exposed to physical risks, which may disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Financial institutions can help mitigate physical climate risks by financing adaptation projects, climate-resilient infrastructure, and solutions for business continuity in exposed geographies. 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, according to research from the Sydney-based Cross Dependency Initiative.

Access and Affordability

Financial institutions' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses. They also help ensure the correct functioning of payments systems, which are cornerstones of economic development and stability. In many countries, unbanked and underserved population segments are still significant. However, the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy often result in costly alternatives for small businesses and low-income people. Therefore, ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for financial institutions. New technologies will increasingly enable financial institutions to close this gap through cost efficiencies and product innovation. On the other hand, access and affordability of health care are crucial for social stability, impacting patients, families, and governments. Limited affordable housing increases homelessness risk for low-income populations, with rent consuming a large share of income. In China, income inequality remains a significant challenge, with a Gini coefficient reported at 0.467 in 2022. This figure indicates a society with substantial income disparity, where 0 represents perfect equality and 1 signifies perfect inequality.

Issuer And Context Analysis

Eligible environmental and social categories aim to address some of FEH's material sustainability factors. For example, renewable energy, clean transportation, green buildings, and energy efficiency aim to address climate transition risks, while sustainable water and wastewater management, and pollution prevention and control aim to manage resource use and environmental impacts. Meanwhile, social categories such as access to essential education and health care services, affordable basic infrastructure, and provision of microfinancing seek to widen access to financial services and contribute to the economic development and well-being of targeted groups, such as unemployed, underserved communities, and micro, small- and medium-size enterprises. Conversely, eligible projects could potentially introduce additional issues, such as exposure to physical climate and biodiversity risks, as well as impact on communities.

FEH is at an early phase of measuring and managing its financed carbon footprint. This is despite its aim of reaching carbon neutrality across all emissions by 2050. Specifically, the company aims to reduce its scope 1 and 2 greenhouse gas intensity by 8% by 2025 (compared to 2021 baseline of 5.46 tCO₂e/RMB million), and by another 20% by 2030. It targets achieving carbon neutrality (scope 1-3) by 2050 and started assessing its scope 3 emissions in 2023, with a focus on corporate loans, investments, and leased assets. Nevertheless, FEH is yet to disclose its scope 3 emissions. Financed emissions typically account for a vast majority of a financier's aggregated emissions. The company stated that it is currently submitting its carbon neutrality goal and a reduction roadmap to be validated by the Science-Based Targets Initiative (SBTi). Without an indicative timeline, FEH plans to disclose scope 3 emissions after its carbon neutrality target (covering scope 1-3) is verified.

Similarly, while the company maintains several policies in relation to sustainable investment and financing for screening, there is limited information on its leasing portfolio's contribution to what it considers green, social, or sustainable. The company has two separate investment policy statements on coal and unconventional oil and gas. It stated that there are currently no leased assets connected with these sectors.

FEH has partially integrated physical climate risk assessments for its investments and operations, but not yet in its leasing activities. According to its sustainability report, the climate-related risk and opportunities analysis referenced the Task Force on Climate-related Financial Disclosures framework. It assessed its fixed assets' exposure to six physical risk types against the Intergovernmental Panel on Climate Change (IPCC)'s Shared Socioeconomic Pathways (SSP) 1-2.6 low emissions and the SSP5-8.5 very high emissions scenarios through 2030

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and 2050 and included some mitigation and adaptation measures. For example, FEH will prioritize investment in assets that consider climate resilience features, such as flood-proof buildings, and water conservation projects. FEH says it is considering expanding the climate risk assessment to cover its leasing sectors, such as infrastructure, though without a clear timeline.

FEH aims to empower underserved populations and MSMEs by providing inclusive financing and investing in social projects. For example, its subsidiary, FEHORIZON Inclusive aims to provide loans to MSMEs specifically in remote and less developed areas of China. FEH stated that it has invested in or provided loans to over 13,000 MSMEs as of today, with cumulative funds reaching over RMB36 billion (US\$ 5billion). Its other subsidiary, Horizonhealth, operates 25 hospitals in county-level districts, which are mostly remote regions with inadequate medical health care resources.

Alignment Assessment

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

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

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

We consider that all green project categories that are listed in the framework have a green shade and all social project categories are aligned with the respective principles. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

FEH's framework articulates its process to evaluate, select, and approve eligible green and social projects. The company has established a sustainable financing working group, comprising of representatives from the proceeds management center, treasury department, investor relations department, and the ESG taskforce. The working group will annually review and select the eligible projects proposed by FEH's business department for use of proceeds financing. FEH will conduct a feasibility evaluation for each eligible project, which includes the identification and management measures of environmental and social risks associated with all eligible projects.

✓ Management of proceeds

The net proceeds will be placed into FEH's general funding accounts, with a dedicated sustainable financing instruments proceed allocation register to track the allocation of proceeds. If a project is no longer eligible, the company will replace it as soon as practicable, in line with the framework's exclusion list. Pending allocation, net proceeds will be invested in sustainable bonds issued by nonfinancial enterprises, short-term market instruments, or cash equivalents.

✓ Reporting

FEH commits to disclosing annually the allocation of proceeds and impact of the financed projects in its environmental, social, and governance (ESG) report until full allocation of the net proceeds. The annual ESG report is available on the company's website. Allocation reporting will include the list of funded projects and aggregated amounts by category, along with brief descriptions and locations of the projects, and the balance of unallocated proceeds. FEH will report the expected environmental and social impacts of funded projects qualitatively and quantitatively, as well as the calculation methodologies.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Renewable energy

Assessment

 **Dark to Medium green**

Description

Generation, transmission, production of parts and equipment that facilitates the adoption of renewable energy

- Offshore and onshore wind
- Solar
- Large hydropower (run-of-river hydropower and no artificial reservoir; or lifecycle greenhouse gas emissions threshold <50gCO₂e/kWh or power density of electricity generation facilities >10W/m²)

Construction, operation, maintenance, and upgrade of facilities and infrastructure for renewable energy generation, including electricity generating facilities, transmission network, and base stations

Analytical considerations

- Renewable energy generation projects address climate change mitigation by enabling systemic decarbonization. Infrastructure supporting the generation and transmission facilitate the increased electrification required for the low-carbon transition. According to the International Energy Agency (IEA), coal still dominates 61% of China's energy mix, followed by oil (18%), natural gas (8%), and the remaining from renewables (e.g. wind and solar). China aims to have 80% of its total energy mix come from sources other than fossil fuels by 2060 and a combined 1,200 GW of solar and wind capacity by 2030 (see [China commits to 80% of energy mix from non-fossil fuels by 2060](#), published Oct. 25, 2021). These solutions are essential to contribute to the country's goals, provided that associated impacts on the environment, such as embodied carbon emissions, physical climate, biodiversity, and land use change risks, are carefully managed.
- FEH's framework stated that the eligible projects could include loans to customers or direct investments to decarbonize its own operations. In both cases, eligible renewable projects cannot be connected to fossil fuel or carbon-intensive assets and activities. It is also positive that fossil-fuel back-up or hybrid generation equipment will not be considered eligible. Eligible wind, solar, and hydropower projects are Dark green solutions to a low-carbon climate resilient future. FEH has included eligibility criteria for hydropower projects. For instance, it will only consider run-of-river projects, excluding those powered using artificial reservoirs. This could avoid methane and carbon emissions, and the associated biodiversity impacts caused by the decomposition of organic matter in the reservoir of a conventional dam. It is also positive that eligible hydropower facilities will have to meet a lifecycle emissions threshold below 50gCO₂/kWh, or an electricity generation density above 10W/m².
- Eligible projects also include facilities and infrastructure that enable the generation, transmission, and storage of renewable energy generated from the eligible projects. These will enable the integration of renewable energy into the local power grids and hence support the deployment of renewable energy. FEH confirmed that activities supporting the expansion of fossil-fuel power technologies, or facilities dedicated to connecting fossil fuel power plants cannot be included. Nevertheless, an absence of clear threshold or eligibility criteria highlights the potential risk from projects being connected to energy-intensive assets. Projects could also involve rebound risks as they are linked to ongoing emissions from coal-heavy local grids. These support a Medium rather than Dark green assessment. FEH stated that it is currently engaging with heavy-emitting companies (such as the manufacturing sector), with an aim to help decarbonize the sector.

- Hydropower projects contain embodied emissions from construction, as well as adverse impacts on biodiversity and marine ecosystems, such as disrupting water flows and fish migration. In addition to setting lifecycle emissions ceilings, FEH stated that it will conduct environmental impact assessments and feasibility studies for all hydropower facilities to ensure potential impacts are managed accordingly. This supports our Dark green assessment of hydropower projects.
- Eligible renewable energy projects generate carbon emissions during their development, construction, installation, and maintenance phases, ranging from materials sourcing, manufacturing, transportation, and the eventual decommissioning of equipment. FEH stated that it will benchmark peer practices when selecting solar, wind, and hydropower equipment. At the same time, there is limited information how it will consider the durability, recyclability, and end-of-life management of this equipment, beyond compliance.
- FEH stated that it will require for each eligible project a third-party feasibility study, which will cover physical climate risks, such as water scarcity risks for hydropower. Nevertheless, there is limited information on the company’s management and mitigation of biodiversity and other environmental impacts, beyond meeting local regulatory requirements.

Clean transportation

Assessment

 **Medium green**

Description

Construction, maintenance, and research and development of zero direct emission (i.e. electric and green hydrogen) transportation facilities, including:

- Electric or green hydrogen-powered vehicles
- Electric rail transportation projects, including railways, trams, metro systems, and vehicles and infrastructure related to rail transportation
- Bus rapid transit (BRT) systems

Manufacture of key assets, systems, and components dedicated to zero direct emission vehicles and vessels

Development and the construction of infrastructure dedicated to the charging of electricity and alternative fuels, including:

- Charging stations for electric vehicle and green hydrogen stations

Analytical considerations

- Mitigating greenhouse gas emissions from transportation will be crucial to meeting global decarbonization goals. The transport sector accounts for 23% of global energy related greenhouse gas emissions, as per the IPCC. According to the National Climate Centre, the transport sector contributes 12% of China's total greenhouse gas emissions. Fossil fuel-powered vehicles also create air pollution, such as nitrogen oxides and sulfur oxides. Investments in electrified transportation will therefore be key to decarbonizing the sector and contributing to the country’s climate goals.
- Eligible projects include investment in the electrification of transportation, such as construction, maintenance, and research and development of electric vehicles (EVs) and green hydrogen-powered vehicles, public electric rail, and electrified BRT systems. FEH states that while it has limited control over the operation of public railway projects, it will solely allocate proceeds to those that are dedicated to electric rail transportation. The company has not clearly specified the eligibility criteria for “zero direct emission vessels” but indicated electricity and hydrogen-fuel cells as eligible sources of power. It stated that it will benchmark national and international standards when deciding on such projects. Eligible projects will also include the financing of assets and equipment (e.g. charging infrastructure) dedicated to these solutions. The framework has excluded transportation or related infrastructure dedicated to the transport of fossil fuels (such as rail projects for the transportation of fossil fuels).
- We assign this category with an overall Medium green to factor in the potential varying degrees of climate impacts due to a broad set of projects that can be financed, with limited considerations to thresholds or performance requirements that guarantee insights on project benefits. The purchase and operation of electrified and green-hydrogen transportation and the development of its supporting infrastructure is consistent with a low-carbon future. On the other hand, the manufacturing and raw materials sourcing are energy and emissions-intensive, and often contain significant environmental impacts.

Proceeds will not include the financing of fossil fuel dependent machinery and equipment. However, there is limited consideration to the lifecycle emissions and value chain impacts of eligible projects. Similarly, while hybrid vehicles will not be eligible, FEH stated that charging infrastructure could be used by hybrid vehicles. Hybrid vehicles are considered more climate-friendly than conventional fossil-based alternatives, but they generally represent a short-term transition solution.

- The production of batteries and fuel cells, as well as the sourcing of raw materials for the construction of vehicles and infrastructure can have substantial climate and environmental impacts, which should be carefully managed. End-of-life battery recycling is also important to manage biodiversity and pollution risks from a circular economy perspective and ease the pressure on minerals mining. While FEH mentions that it will consider climate benefits and lifecycle emissions when prioritizing eligible projects, there are less explicit environmental considerations to eligibility criteria, such as emission performance of vehicles, production processes, sourcing, among other social and governance aspects across the value chain.
- The decarbonization of the transportation sector will require a significant expansion of low-carbon transport infrastructure. Supporting infrastructure and technologies for EVs, such as charging stations, are well-aligned with a low-carbon future. It is positive that FEH will only allocate proceeds to railway projects covering tracks that serve electric rolling stock. However, the actual emissions reduction the vehicles can provide depends on the local electricity grid carbon intensity, which is high in China.
- The construction of infrastructure dedicated to the charging of electric or hydrogen-powered vehicles is crucial to decarbonizing the sector. Nevertheless, climate and other environmental risks can arise during the production process through running facilities on fossil-fuel based energy. Biodiversity risks can also arise, stemming from the increased demand for raw materials and their sourcing, as well as the expansion on greenfield sites for the development of infrastructure. FEH stated that it will exclude the financing of any machinery or equipment directly running on fossil fuels. It will engage experts to assess and evaluate biodiversity and pollution risks and impacts. On the other hand, there is limited information on physical climate risks beyond the feasibility studies required by local law and regulations.

Sustainable water and wastewater management

Assessment

 **Medium to Light green**

Description

Wastewater collection, treatment and recycling technologies and infrastructures, including:

- Refurbishment or upgrade of wastewater treatment facilities that reduce at least 20% net average energy consumption of the related asset

Technologies and facilities to promote water saving and sustainable water management, with the below thresholds:

- Abstraction and treatment of water with net average energy consumption of ≤ 0.5 kWh per cubic meter (m^3) produced water supply
- Leakage level: Infrastructure Leakage Level (ILI) ≤ 1.5

Analytical considerations

- Wastewater collection, treatment and recycling helps avoid untreated water being released into the environment. Eligible project will mainly focus on the refurbishment or upgrade of existing wastewater treatment facilities, as well as measures to reduce energy consumption in water supply systems. While FEH stated that eligible projects may serve industrial sectors, such as agriculture, manufacturing, and public utilities, it is positive that the company confirmed eligible projects will not treat wastewater from the fossil fuel industry, or those supporting the fossil fuel value chain.
- The production of chemicals for use in water and wastewater treatment generate solid waste and methane emissions. The powering of these systems could be highly energy and emissions intensive. We assign this project category an interval of Medium to Light green to reflect specific quantifiable energy and water leakage threshold requirements that guarantee minimum environmental benefits, but limited insights on how FEH will mitigate environmental impacts associated with the projects, such as ecological impacts and lifecycle emissions (including facility and equipment upgrades, the use of chemicals, and sludge disposal), besides meeting local regulatory requirements.

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- It is positive that all refurbished or upgraded treatment facilities will require a minimum 20% of net average energy consumption reduction. Similarly, the framework requires eligible water supply systems to achieve a net average energy consumption for abstraction and treatment of 0.5 kWh/m³ produced water supply or below, and an infrastructure leakage level of 1.5 or below for the water supply network. These guarantee environmental benefits to the projects.
- On the other hand, the company is less explicit on the applicable measures or quantifiable thresholds for recycling technologies. FEH confirmed that eligible facilities will mainly be powered by electricity but may also include some equipment running on fossil fuel due to limited market alternatives. It is researching technologies to replace fossil-fuel equipment with electric facilities. Still, there could be indirect linkages to ongoing emissions from coal-heavy local grids.
- Water and wastewater projects for the agriculture sector could be eligible, which may introduce additional value chain risks (e.g. land use change, and adverse environmental impacts from agricultural practices). With regards to biodiversity, as well as physical climate risks, there is limited information beyond feasibility studies to comply with local regulatory requirements.

Green buildings

Assessment

 Light green

Description

Green buildings that have or expected to receive regional, national, or international certifications, which will also be applicable to hospitals, schools, or other buildings for commercial purposes:

- Chinese Green Building Evaluation Label – 3 star
- U.K Building Research Establishment Environmental Assessment Method (BREEAM) – Very Good or above
- U.S. Leadership in Energy and Environmental Design (LEED) – Gold or above
- Hong Kong Green Building Council BEAM Plus Standards – Gold or above
- Singapore Building and Construction Authority (BCA) Green Mark: Minimum certification of GoldPLUS or above
- Green Standard for Energy and Environmental Design of Korea (G-SEED): Level II or above; or
- Indian Green Building Council (IGBC) Rating Systems – Gold or above

Analytical considerations

- Green buildings support climate change mitigation by alleviating greenhouse gas emissions associated with energy use. They could also have other environmental benefits related to water and waste management. However, construction activities introduce other issues such as energy performance and emissions associated with building materials. The IEA emphasizes that reaching net-zero emissions in buildings demands major strides in energy efficiency and fossil fuel phase out. All properties must achieve high energy performance. New properties should also cut emissions from building materials and construction. Physical climate risks are likely to be material for buildings, and new construction may raise biodiversity issues.
- FEH does not have an indicative split between new construction, existing buildings, and renovation projects. It considers hospitals, schools, or other commercial buildings that have obtained international or national green certificates to be eligible. The company added that some industrial buildings could also be eligible, provided they do not directly involve fossil fuel activities. The framework's exclusion list also rules out any buildings that support the fossil fuel value chain or are inherently carbon-intensive (e.g., airports).
- Construction and retrofits involve embodied emissions and associated climate impacts. For new buildings, FEH solely relies on the selected green building certifications for screening. Even though green building certifications cover a broad set of environmental aspects, they differ in their requirements for energy efficiency, embodied emissions of construction materials, and climate resilience. And their point-based systems do not necessarily require minimum performance improvements. Required certification levels could be achieved without addressing specific environmental issues thoroughly. FEH does not have a plan to assess a given building's life cycle emissions, nor to set any emissions reduction targets or thresholds. This

implies that certified buildings do not necessarily guarantee the highest climate impact and supports the assessment of Light green.

- FEH plans to implement energy efficiency measures in both renovation projects and operations of existing buildings. While not specified in the framework, the company stated that it requires these projects to achieve at least 30% energy efficiency improvement. However, there is limited consideration to the overall portfolio’s energy intensity. Similarly, it has not identified any opportunities to conduct portfolio lifecycle emissions assessments, or to inform of any emissions reduction thresholds. These factors also limit the assessment to a Light green shade.
- FEH expects the main energy source of buildings to be electricity from hydrocarbons-heavy grids. However, the project’s eligibility criteria do not necessarily consider downstream emissions, e.g. from fossil fuel heating. The company stated that it is exploring energy efficient options and clean energy alternatives.
- According to FEH, green buildings projects are exposed to physical climate risks, such as extreme rainstorms and drought. It requires climate risk assessments for eligible projects during the planning stage to identify and mitigate exposure. The company stated that it has deployed some water efficiency measures, such as rainwater harvesting and reuse systems. Construction activities contain biodiversity and land use change risks. FEH’s management in this regard appears largely compliant with national laws and regulations, such as carrying out measures based on its feasibility studies.

Energy efficiency

Assessment

 **Medium to Light green**

Description

Renovation or repair work that is certified by independent third parties that energy efficiency of the renovated or repaired portion of the project has improved for at least 30% upon the completion of work

Construction, operation, maintenance, and upgrade of smart power grids, power storage systems, smart metering systems, and other smart electricity systems that manage intermittency of renewables

Analytical considerations

- Energy efficiency brings various environmental benefits, such as greenhouse gas emissions reduction from reduced usage of power. Therefore, increasing energy efficiency is critical to limiting global warming to below 2 C. According to the IEA’s net zero emissions by 2050 scenario, a 35% improvement in energy efficiency, equivalent to 4% per year, is necessary by 2030. But the average improvement from 2017 to 2021 was only 1.3%.
- FEH has set a minimum energy efficiency improvement threshold of 30%, verified by a third-party auditor, which adds to the transparency of the projects’ potential impact. The framework excludes any activities related to fossil fuels, or carbon-intensive assets. The company also confirmed upgrades or maintenance of fossil fuel equipment (e.g., boilers) will not receive funding. On the other hand, a potentially broad range of eligible projects yet limited considerations to the value chain emissions (such as from development and manufacturing), limit the visibility of the lifecycle benefits. Given FEH’s presence in China, where the local grids are still dependent on fossil fuel for power, improved efficiency could drive more energy usage, leading to rebound effects. These factors support a Light green shade.
- Eligible projects also include technologies that are dedicated to renewable energy, such as energy storage, smart power grids, and metering systems. Energy storage plays a key role in a low carbon future as it provides the necessary flexibility and adaptability to balance the intermittency of renewable energy sources. Additionally, smart grid and metering facilitates the integration, deployment, and monitoring of renewable energy. These investments are essential to grid resiliency and electrification. That said, coal still plays a large role in China’s grids, linking to ongoing fossil fuel use. Similarly, batteries used for energy storage involve metal mining for minerals such as lithium, cobalt, and copper. This can harm the environment by disrupting the natural habitat and causing pollution. We assess this project as Medium green given a potential broad range of projects, but limited information on their lifecycle benefits.
- Energy efficient projects in fixed assets present some physical climate risks. FEH mainly relies on feasibility studies to identify and manage such risks, in accordance with local regulatory requirements.

Pollution prevention and control

Assessment

 **Medium green**

Description

Construction, operation, and maintenance of facilities, systems, or equipment for waste management and recycling, including the collection, segregation, treatment and processing of all types of waste, with the aim of reuse, minimizing the amount of waste going to landfills or bringing valuable raw materials back to market







Construction, operation, and maintenance of waste-to-energy projects (i.e. electricity generation with solid waste and sewage sludge) with the below thresholds:

- 25% waste-to-energy efficiency
- Lifecycle greenhouse gas emissions intensity below 100gCO₂e/kWh

Analytical considerations

- Waste management is important from a pollution prevention and control perspective, as it can avoid harm to human health and local ecosystems. Recycling, if implemented properly, can reduce emissions and resource use. Waste prevention and reuse are the preferred solutions under the waste management hierarchy because they have the least negative environmental impact, followed by recycling, energy recovery, and finally disposal. Waste collection and segregation can facilitate recycling and reuse and divert waste from being disposed.
- Eligible projects aim to collect, segregate, treat, process, and recycle waste (such as plastic, biodegradable, hazardous waste). FEH aims to prioritize materials reuse and minimize the volume of waste going to landfills, which is in line with the waste management hierarchy. Diverting waste from landfill avoids the risks of soil contamination and methane emissions. Similarly, waste-to-energy projects provide a disposal solution for waste that cannot be recycled or reused. Heat energy recovered through the combustion of solid waste and sewage sludge will be used for electricity generation. FEH states that eligible waste management projects could serve various sectors and will aim to minimize waste being sent to landfills. It is also positive that activities dedicated to the expansion of fossil fuel-based technologies will be excluded.
- China is one of the world’s largest municipal solid wastes (MSW) generators. According to the World Bank, the amount of MSW generated by 2030 is projected to be at least 480 million tons. The country implemented several waste-related targets in its 14th Five-Year Plan, including reaching a recycling rate of 60% for solid waste and construction waste by end of 2025. As such, eligible waste managing and recycling projects address an urgent need to prevent pollution, protect biodiversity, and address emissions from less resource usage. They could reduce waste being sent to landfill and reduce soil and water contamination. On the other hand, the powering of infrastructure and facilities could include the usage of fossil fuel, which creates carbon lock-in risks. These support our Medium green assessment.
- Waste-to-energy projects convert solid waste and sewage sludge to electricity and heat, while most recyclables, especially plastics, will be collected, sorted, and segregated before incineration. While this may be preferable to landfilling, it is equally important to consider life-cycle emissions as waste-to-energy projects are typically emissions intensive and will likely involve fossil fuel usage throughout the value chain (i.e. transportation of waste over long distances). We view positively that FEH has set a lifecycle emission ceiling of 100gCO₂e/kWh and requiring 25% waste-to-energy efficiency for all eligible incineration plants. This supports our Medium green assessment. Incineration projects contain local pollution risks, releasing pollutants, such as particulate matter, carbon monoxide, and acidic gases. FEH’s management of by-products and exhaust emissions appear limited to regulatory compliance with local standards.
- Similar to other eligible categories in the framework, FEH mainly relies on the feasibility study to identify and manage physical climate risks and biodiversity impacts, in accordance with local regulatory requirements.

S&P Global Ratings' Shades of Green

Assessments					
Dark green	Medium green	Light green	Yellow	Orange	Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Access to essential services (education)

Construction of public education facilities

Financial support to dedicated social groups, such as the unemployed or low-income individuals, including public education facilities and loans for vocational education

Analytical considerations

- Providing financial access to education, such as vocational training, can improve learning and economic opportunities. This is particularly the case for students facing unemployment, or from low-income and underserved backgrounds. It also helps increase job and social mobility in the labor market, lifting people out of poverty, and achieving broader community benefits.
- China has seen a concentration of resources in a few of its top institutions in the wealthiest metropolitan areas, rather than investments in the country's broad educational system (source: U.S.-China Economic and Security Review Commission). Financial burdens of education vary across different income levels, especially in China. According to Stanford University, China's households spend on average 17.1% of their annual income and 7.9% of their total annual expenditures on education, surpassing countries such as Japan, the U.K., and the U.S. (1%–2%). In China, the burden of education cost tends to be higher for poorer parents since they usually end up allocating a higher proportion of their income toward their children's education. China's lower-income households spend 56.8% of their income on their children's education, while the country's higher-income households only allocate 10.6%.
- Target populations are the unemployed and low-income individuals who receive minimum social security allowances and live in less developed areas in Mainland China. In China, especially mountainous areas' public education facilities are less developed, which makes it difficult for the local students to get access to quality education. FEH stated that it will reference local government's definitions when screening targeted beneficiaries. Since affordability is essential to maximize social outcomes, the education loans that the company is financing will be granted to local public institutions. Public education facilities refer to primary and secondary schools under the nine-year mandatory education system in China.
- FEH stated that eligible projects also include voluntary education programs run by charitable organizations. For example, the company organized more than 30 volunteers to initiate teaching activity projects at four primary schools in Longnan (Gansu) and Yinchuan (Ningxia) in 2023.
- China is facing the gap between urban and rural education. Schools in major cities such as Beijing and Shanghai, where higher-income households tend to live, are well funded and offer higher quality education. On the other hand, rural schools do not have an equivalent number of resources, which results in fewer trained teachers, and less equipped facilities (Source: Essential Education). Because of this disparity, students in rural areas often struggle to access higher education, which is creating unequal opportunities in the society. The Chinese government has implemented policies aiming to reducing the urban-rural divide, but private sector also must help to close the gap, for example by providing funding for rural schools, teacher training programs, and education infrastructure.
- Environmental performance is not a priority consideration for these projects. Climate and environmental risks in social projects that require construction of infrastructure can stem from the use of materials with high embodied emissions such as steel and cement, or those with a direct link to fossil fuels such as asphalt. Projects could lead to local pollution, use of fossil-fuel-powered equipment during construction, and land use change and biodiversity impacts from urban expansion.

Access to essential services (health care services)

Construction of basic infrastructure for public health care services

Procurement of facilities and medicine for public health care services

Production of products and facilities for public health care services

Analytical considerations

Second Party Opinion: Far East Horizon Ltd. Sustainable Financing Framework

- Supporting access to essential health care services can improve the health and well-being of patients, which can translate into greater efficacy of existing health care infrastructure. Access to affordable health care fulfil basic human needs, and is also associated with social inclusion, economic stability, community well-being, quality of life, and other benefits.
- Over the past years, China had experienced economic growth and social progress, which improved people's living standards and life expectancy. On the other hand, there are growing challenges of an aging population and the burden of chronic illnesses. As per the Hong Kong Academy of Medicine, primary health care providers often lack the necessary knowledge to achieve optimal health consequences, especially in rural areas in China. This lack of knowledge can lead to misdiagnosis, overtreatment, and poor outcomes for patients. This is usually due to limited funding, staffing shortages, inadequate infrastructure, and low incentives.
- Target populations are the public living in less developed and remote areas in Mainland China. FEH sets targets for the number of patients who receive public health care and medical treatment services. At the same time, the company is focusing on improving health care accessibility and availability, by financing the development of public health care infrastructure. The company has not specified any pricing conditions or eligibility criteria to eligible projects, but stated eligible projects will only include public health institutions, which will refer to the guidelines from local governments.
- Urban areas such as Beijing and Shanghai often have access to more health care resources, maybe at the expense of equitable health care access in rural areas. A major obstacle to health care access in China is the uneven distribution of the health workforce. Infrastructure for public health care services need to be more accessible, especially in central and western regions of China where they struggle to attract health workers because of economic underdevelopment. While the government is making efforts to improve the economic statuses of vulnerable regions, private sector allocating more resources on public health care helps close the gap in regional health care access and delivery of high-quality care to the Chinese population.
- The framework covers training and skills development for medical staff members. For example, FEH launched a public welfare training project on pediatric urology at Shanghai Children's Medical Center and organized training classes and seminars for medical personnel, such as clinical skills training and sharing of medical knowledge.
- Climate and environmental risks associated with social projects that require construction of infrastructure can stem from the use of materials with high embodied emissions such as steel and cement, or those with a direct link to fossil fuels such as asphalt. Projects will lead to local pollution, use of fossil-fuel-powered equipment during construction, and land use change and biodiversity impacts from urban expansion. Environmental performance is not a priority consideration for these projects.

Indirect employment generation through the provision of loans to micro and small enterprises

Provision of inclusive financing to micro and small enterprises

Analytical considerations

- Supporting micro and small enterprises through the provision of financial capital can support their expansion and foster equitable economic growth and participation in the financial ecosystem. This, in turn, promotes job creation and stability and brings greater resilience to the community.
- The framework will refer the definition of MSEs published by the China National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce, and the National Bureau of Statistics. These can include agricultural forestry industries and fishers, enterprises with operating income of <RMB200 million (US\$ 28 million). For construction industry, enterprises with operating income or total assets <RMB800 million (US\$111 million). In addition, the company refers to the Notice of the People's Bank of China on Implementing Targeted Reserve Requirement Reductions for Inclusive Finance in providing inclusive financing, which focuses on providing loans to industrial, agricultural, and commercial enterprises with a credit limit of <RMB5 million per borrower.
- FEH will focus on expanding financing to micro and small enterprises, although there are no specific details on interest rates. Therefore, FEH expects to increase financial inclusion through higher amounts of available financing. FEH stated that the interest rates are expected to be lower than market rates, but the exact details are unclear and may be associated with social risks, such as increased interest rate burden for MSEs.
- According to the Chinese government, the country has extended more inclusive loans to MSEs in the first quarter of 2024. By the end of March, outstanding inclusive loans granted to MSEs totaled RMB33 trillion (US\$ 4.7 trillion), up 20% from March

2023. At the same time, MSEs in rural areas face challenges such as aging population, digital transformation, and climate change. These challenges require financing and services that can meet development needs. Outstanding loans provided to rural households for production and operations increased 17.1% to RMB9.95 trillion in 2024.

- As a major engine of employment for the rural population in China, MSEs play an important role to improve people's livelihoods. As per a United Nations' survey conducted in 2023, around three quarters of the rural participants reported engaging in entrepreneurial activities, which shows the importance of the rural MSEs in socio-economic development. Financing through loans was required by 48.8% of the rural MSEs, with 38.3% demanding medium-term loans and 61.7% requiring short-term transfer loans. Large capital investment such as leasing land, acquiring production equipment and hiring employees increased financing demands. Hence, helping rural MSEs to obtain adequate resources as well as improve their financial literacy and operating capability will ultimately enhance the overall financial and market resilience if rural MSEs and generate more employment.
- FEH will conduct environmental and social due diligence for each project to manage its associated risks and prioritize projects with environmental benefits.

Affordable basic infrastructure

Facilities to provide clean drinking water for people living in areas with no or insufficient access of safe drinking water

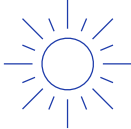




Analytical considerations

- Supporting affordable basic infrastructure to provide clean and safe drinking water can improve the quality of life of people living in areas that currently lack such infrastructure. Access to clean water reduces health hazards (unsafe water causes 1 million deaths globally per annum) and the effort required to collect water for domestic use, especially in underserved neighborhoods.
- Climate change is changing the global hydrological cycle, which has resulted in causing water safety issues in various parts of the world. China's water environment situation has also become complex with its rapid economic growth and urbanization over the years. Access to safe drinking water has become a major public concern in China. According to Worldometer, about 62 million people (4.5% of the population) have no access to safe drinking water. Insufficient water supply in remote communities affects people's health, welfare, and living conditions. Improving access to safe water in rural areas is an important national development objective.
- Target populations are rural households with currently limited or no access to drinking water in Mainland China. FEH will provide loans to finance the development of water supply network and sanitation facilities to improve rural households' access to safe drinking water. According to the National Library of Medicine, the demand for fresh water is rising due to rapid urbanization in China. In 2018, water consumption was 225 liters/day in urban areas and 89 liters/day in rural areas, which were still well below the average water consumption >350 liters/day for Japan and the U.S.
- China has made significant progress in increasing water supply and sanitation coverage over recent decades. According to World Bank, between 1990 and 2012, access to extended water supply increased from 67% to 92% and sanitation went from 24% to 65%. Meanwhile, rural-urban disparities remain. Access to tap water in rural China increased to 70% by 2017, but the rate was still lower than that in cities and unevenly distributed across the country (source: ACS Publications).
- Projects that provide clean drinking water will improve the quality of life of rural households or villagers. While such infrastructure may not be free of charge, they will be managed and operated by local government organizations, which typically focus on accessibility and affordability. During the project due diligence phase, FEH will conduct background checks to ensure the location's eligibility, as well as discussing appropriate mitigation and remediation plans with the local communities before projects commence.
- While clean water supply projects include filtration and purification which contain both environmental and social benefits. Construction of infrastructure often necessitate the use of building materials with significant embodied emissions, such as concrete, and asphalt, or use of equipment powered by fossil fuels. There are also potential biodiversity, land use, and pollution impacts from the use of chemicals.

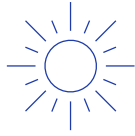
Mapping To The U.N.'s Sustainable Development Goals

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/KPI]	SDGs
Renewable Energy	 *7. Affordable and clean energy
Clean Transportation	 *11. Sustainable cities and communities
Sustainable Water and Wastewater Management	  *6. Clean water and sanitation *12. Responsible consumption and production
Green Buildings	 *11. Sustainable cities and communities

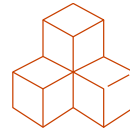
Energy Efficiency



***7. Affordable and clean energy**



***8. Decent work and economic growth**



***9. Industry, innovation and infrastructure**

Pollution Prevention and Control



***11. Sustainable cities and communities**



***12. Responsible consumption and production**

Access to Essential Services (Education)



***4. Quality education**

Access to Essential Services (Health care Services)



***3. Good health and well-being**

Indirect Employment Generation through the Provision of Loans to Micro and Small Enterprises



***8. Decent work and economic growth**

Affordable Basic Infrastructure



***6. Clean water and sanitation**



9. Industry, innovation and infrastructure



***11. Sustainable cities and communities**

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

Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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Second Party Opinion: Far East Horizon Ltd. Sustainable Financing Framework

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