

Second-Party Opinion

SY Holdings Group Social Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the SY Holdings Group Social Financing Framework is credible and impactful, with one limitation, and aligns with the four core components of the Social Bond Principles 2021 and the Social Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories¹ for the use of proceeds are aligned with those recognized by the Social Bond Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to contribute to underserved small and medium-sized enterprises, the overall supply chain ecosystem in China and advance the UN Sustainable Development Goals, specifically SDGs 3, 8 and 9, while also noting a limitation in the healthcare category.



PROJECT EVALUATION / SELECTION SY Holdings Group Limited's ESG Working Group, Industrial Financing and Treasury departments will be responsible to identify, shortlist and approve the potential assets and/or projects in line with the eligibility criteria as set out in the framework. SY Holdings Group Limited has risk management and customer acceptance policies, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers these risk management policies to be adequate and aligned with market expectations.



MANAGEMENT OF PROCEEDS SY Holdings Group Limited's Finance Department is responsible for the management and allocation of proceeds and will track the net proceeds using an internal tracking system. SY Holdings Group Limited intends to fully allocate the proceeds to the eligible projects within a period of 12 months from the date of issuance. Pending allocation, unallocated proceeds may be held in cash in accordance with SY Holdings Group Limited's cash investment policy. Sustainalytics considers this process to be in line with market practice.



REPORTING SY Holdings Group Limited intends to report on the allocation and impact of the proceeds on its website or through the Group's ESG report annually until full allocation. The allocation report will include a summary of the eligible social projects funded, the total amount of proceeds allocated, and the balance of unallocated proceeds. SY Holdings Group Limited also commits to report the social impacts where feasible. Sustainalytics considers this process to be in line with market practice.

Evaluation Date August 22, 2022

Issuer Location Hong Kong, China

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For inquiries, contact the Sustainable Finance Solutions project team:

Arnab Deb (Mumbai)
Project Manager
arnab.deb@sustainalytics.com

Nimisha Shah (Mumbai)
Project Support

Winnie So (Hong Kong)
Project Support

Melody Meng (Shanghai)
Project Support

Jingjing Chen (Shanghai)
Project Support

Patrick Jin (Shenzhen)
Client Relations
susfinance.apac@sustainalytics.com
(+852) 3008 2391

¹ The eligible social categories are: SME Lending (Improving access to capital and facilitating integration into supply chains), SME Lending (Providing support amidst natural and health disasters).

Introduction

SY Holdings Group Limited (“SY”, the “Issuer” or the “Group”) is a supply chain technology platform providing data-driven financing solutions for companies in the Asia-Pacific region. The Group is listed on the main board of the Hong Kong Stock Exchange and is a constituent of the MSCI Small Cap China Index, Hang Seng Composite Index, Hang Seng Corporate Sustainability Index and the Shenzhen-Hong Kong Stock Connect. The Group was established in 2013 and headquartered in Hong Kong with its services focussing on industrial technology and digital finance in the health, infrastructure and energy sectors.

SY has developed the SY Holdings Group Social Financing Framework (the “Framework”) under which it intends to issue social bonds and loans and use the proceeds to finance, in whole or in part, existing and/or future investments or loans in projects and businesses that are expected to contribute to underserved small and medium enterprises (SMEs) and the overall supply chain ecosystem in China. The Framework defines eligibility criteria in three social areas:

1. SME Lending: Improving access to capital and facilitating integration into supply chains
2. SME Lending: Providing support amidst natural and health disasters
3. Access to Essential Services: Healthcare & medical

SY engaged Sustainalytics to review the SY Holdings Group Social Financing Framework, dated June 2022, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2021 (SBP)² and Social Loan Principles 2021 (SLP).³ The Framework will be published in a separate document.⁴

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁵ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

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

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

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 11.1.3, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

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

² The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

³ The Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at <https://www.lsta.org/content/social-loan-principles-slp/>

⁴ The SY Holdings Group Social Financing Framework will be available on SY Holdings Group’s website at: <https://www.syholdings.com>

⁵ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

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

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

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

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

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

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the SY Holdings Group Social Financing Framework

Sustainalytics is of the opinion that the SY Holdings Group Social Financing Framework is credible and impactful and aligns with the four core components of the SBP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – SME Lending (Improving access to capital and facilitating integration into supply chains) and SME Lending (Providing support amidst natural and health disasters) – align with those recognized by the SBP and SLP, while noting limitations in the third category (Access to Essential Services - Healthcare & medical).
 - Under the Framework, SY intends to provide loans, through accounts receivable factoring (A/R), to SMEs in China and to companies (regardless of size) involved in supplying consumables and equipment to public hospitals.
 - SY has confirmed that each loan disbursed under the Framework can be tracked to the A/R of the borrower, each loan corresponding to a specific underlying transaction. SY intends to track each of the A/R-based loans through a register of accounts receivables for each loan disbursed. Sustainalytics notes that the financing provided by SY through A/R-based lending is short-term and general in nature.
 - Sustainalytics recognizes that the SBP and SLP prefer project-based lending and financing, and that there is, in general, less transparency with non-project-based financing. Nevertheless, Sustainalytics recognizes that the financing of general purpose loans to eligible SMEs and pure play companies⁶ through social bonds or loans is commonly accepted as an approach which can generate positive impacts.
 - Under SME Lending (Improving access to capital and facilitating integration into supply chains) and SME Lending (Providing support amidst natural and health disasters), SY may provide loans limited only to SMEs in mainland China following the definition of SME by the Central People's

⁶ Sustainalytics considers pure-play companies to be those that derive 90% or more of their revenues from eligible green or social-benefit activities.

Government of the People's Republic of China.⁷ Loans will be provided through a digital application process to allow cross-provincial access and to shorten the application time.

- SME Lending (Improving access to capital and facilitating integration into supply chains) focusses on improving access to capital and facilitating integration into supply chains; the Issuer will provide loans to SMEs in mainland China that face difficulties in terms of obtaining timely credit.
 - SME Lending (Providing support amidst natural and health disasters) focusses on providing support amidst natural and health disasters; the Issuer intends to provide loans to SMEs in mainland China that are impacted by natural disasters, including the COVID-19 pandemic.
 - SY also intends to support the provision of basic infrastructure, in terms of connectivity, through SME lending in China.
 - Sustainalytics considers SY Holdings' A/R lending program for SMEs to be eligible based on its stance that all lending to SMEs in China (with the exception of those involved in the excluded activities noted below) is eligible for social finance.
- SY has confirmed to Sustainalytics that the loans provided to SMEs have affordable loan pricing and comply with the Chinese government's domestic lending regulatory limit of 24%.^{8,9} SY further confirmed to Sustainalytics that its interest rates have stayed below the national limit and demonstrated a continuous reduction in the past three years.¹⁰ The Issuer also commits to the following: (i) there will be no minimum financing amount for SMEs; (ii) repayment schedules may be determined as per the SME's requirement; and (iii) interest rates will depend on the SME's capital requirement and nature of business. SY confirms to Sustainalytics that the Group adheres to its Preventing Excessive Debt principle and has the following in place: Credit Management System, Post-Loan Management System, Credit Line Management Measures and Customer Rating and Risk Management Enhancement Measures.¹¹ SY will adopt a pre-screening process on the SMEs for potential controversial and illegal activities to manage related social and environmental risks; please refer to Section 2 for further details. Sustainalytics considers this to align with market practice.
 - In the Access to Essential Services category, SY intends to provide A/R-based lending to companies and SMEs involved in the healthcare and medical sector in China. Potential expenditures may include the following:
 - Loans to companies and SMEs involved in the construction, renovation or extension of multi-disciplinary public hospitals. SY has confirmed to Sustainalytics that the A/R-based financing provided to companies will be exclusively linked to transactions related to the construction or renovation of public hospitals.
 - Loans to medical distributors, suppliers and manufacturers that provide healthcare consumables and equipment to public hospitals or clinics, healthcare companies engaged in basic medical care and supplies for the development and provision of medical care and health services.
 - SY has disclosed that healthcare consumables include drugs, syringes, needles, staples, packaging, tubing, medical gloves, gowns, masks, adhesives and materials for wound dressing, and other items and tools that are used in public hospitals and equipment. Infrastructure includes hospital stretchers, defibrillators, sterilizers, EKG/ECG machines and surgical tables.
 - Sustainalytics recognizes that SY's A/R-based lending under the category of Access to Essential Services will provide some indirect benefit to public hospitals by helping them to manage their cash flow and finance their activities. However, the primary, direct recipients of SY Holding's financing within this category are the businesses supplying these hospitals. They include businesses that are neither eligible SMEs nor social pure-play companies, and they are not

⁷ The Central People's Government of the People's Republic of China, "Notice on Printing and Distributing the Provisions on the Classification Standards for Small and Medium-sized Enterprises" (2011), at: http://www.gov.cn/zwggk/2011-07/04/content_1898747.htm

⁸ The Supreme People's Court of the People's Republic of China, "Applicable Law on Several Issues of Private Lending Trial Cases" (2020), at: <https://www.court.gov.cn/fabu-xiangqing-249031.html>

⁹ The Supreme People's Court of the People's Republic of China, "Reply of the Supreme People's Court on the Scope of Application of the New Judicial Interpretation on Private Lending" (2020), at: <https://www.court.gov.cn/zixun-xiangqing-285171.html>

¹⁰ SY Holdings confirmed to Sustainalytics that the interest rate was approximately 12% in 2019, 11% in 2020 and 9% in 2021.

¹¹ SY, "ESG report" (2021), provided to Sustainalytics.

required to allocate to projects or activities identified as eligible in the Framework.¹² Furthermore, the specific products and services that they supply are in most cases not inherently eligible for social finance, in Sustainalytics opinion. Sustainalytics considers the limited and indirect nature of the financial support provided to public hospitals to be a limitation of the Framework.

- SY has confirmed to Sustainalytics that the Framework excludes activities involving child labour, the gambling industry, adult entertainment activities, controversial weapons manufacturing, fossil fuel-based operations, transportation of fossil fuels and palm oil production.
- **Project Evaluation and Selection:**
 - SY has established an ESG Working Group (the “Working Group”) which will be led by SY’s Corporate Governance Department and comprises the Group’s senior management as well as representatives from Human Resources, Risk Management and Treasury departments. The Working Group and SY’s Industrial Financing and Treasury departments will be responsible for identifying, shortlisting and approving the potential assets and projects, assessing whether they are in line with the eligibility criteria as set out in the Framework.
 - SY has risk management and customer acceptance policies, which are applicable to all allocation decisions made under the Framework to avoid financing activities involved in any criminal, socially or environmentally detrimental activities. Sustainalytics considers these risk management policies to be adequate and aligned with market expectations. For additional details, see Section 2.
 - Based on the established process for project selection and the presence of adequate risk management systems, Sustainalytics considers SY’s project evaluation and selection process to be in line with market practice.
- **Management of Proceeds:**
 - SY’s Finance Department is responsible for the management and allocation of proceeds and will track the net proceeds using an internal tracking system.
 - SY intends to fully allocate the proceeds to the eligible projects within a period of 12 months from the date of issuance. Pending allocation, unallocated proceeds may be held in cash only in accordance with SY’s cash investment policy, subject to exclusion criteria.
 - Based on the presence of an internal tracking system and disclosure of the temporary use of net proceeds, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - SY intends to report on the allocation and impact of the proceeds on its website or through the Group’s ESG report annually until full allocation. The allocation report will include a summary of the eligible social projects funded, the total amount of proceeds allocated at category level and the balance of unallocated proceeds.
 - SY intends to report the social impacts on an annual basis. Key performance metrics include total SMEs funded, total loans disbursed to SMEs and quantity of medical consumables funded. For a full list of impact indicators, please refer to Appendix 1: Social Bond / Social Bond Programme - External Review Form.
 - Based on the allocation and impact reporting commitment, Sustainalytics considers this process to be in line with market practice.

Alignment with Social Bond Principles 2021

Sustainalytics has determined that the SY Holdings Group Social Financing Framework aligns with the four core components of the SBP and SLP. For detailed information, please refer to Appendix 1: Social Bond / Social Bond Programme External Review Form.

¹² Sustainalytics considers pure-play companies to be those that derive 90% or more of their revenues from eligible green or social-benefit activities.

Section 2: Sustainability Strategy of SY

Contribution of Framework to SY Holdings Group's sustainability strategy

SY endeavours to integrate social responsibility as one of its core values and commits to contributing to the welfare of society through investing in socially responsible projects. Following its commitment, the Group focuses on supporting SMEs in order to increase access to finance for enterprises in China. Furthermore, SY aims to advance financial inclusion by supporting SMEs in the infrastructure, healthcare and energy sectors.¹³

SY reported that the total supply chain assets on its platform amounted to approximately CNY 132 billion (USD 19.80 billion), benefitting over 10,300 SMEs as of December, 2021.¹⁴ The Group reported a growth of 40% in SME financing as of December 2021 compared to December 2020, and the total cumulative supply chain assets increased by nearly 30%.¹⁵ Furthermore, the Group also supported SMEs that were affected by the pandemic by providing diversified fintech solutions, enabling them to obtain funds by providing deferred payment services and fee waivers in 2020.

Sustainalytics is of the opinion that the SY Social Financing Framework on SME Lending is aligned with the Group's overall sustainability strategy. Sustainalytics also notes that the Group has not released a publicly accessible sustainability strategy or targets, and encourages the Group to develop a comprehensive sustainability strategy with quantifiable time-bound targets to further strengthen its sustainability commitments.

Approach to managing social and environmental risks associated with the projects

Although Sustainalytics recognizes that the net proceeds from the Framework will be directed towards eligible projects that are expected to have positive social impact, Sustainalytics is aware that such expenditures could also lead to negative environmental and social outcomes. Although the Group plays a limited role in the development of the projects financed under the Framework, by offering lending and financial services, it is exposed to risks associated with controversial companies and projects that it may finance. Some key environmental and social risks associated with the eligible projects, could include data privacy, predatory lending or over-indebtedness of financially vulnerable companies and the exacerbation of inequalities if underserved groups are not appropriately targeted, land use and biodiversity issues associated with large-scale infrastructure development,

Sustainalytics is of the opinion that SY can manage or mitigate potential risks through the implementation of the following:

- SY has an overarching internal risk management system and customer acceptance policies in place. During the onboarding phase, customers engaged in any criminal, socially or environmentally detrimental activity, such as work stoppage, rights protection, seizure and construction accidents will be placed under the Group's blacklist.¹⁶ In addition, SY also requires certain underlying goods to pass the environmental impact assessment to avoid financing business with high environmental risk.¹⁷
- To prevent providing excessive debt, the Group has committed to comply with national policies, such as the Regulation on Ensuring Payments to Small and Medium-Sized Enterprises,¹⁸ which safeguard the legitimate rights and interests of SMEs.¹⁹ The Group implements a two-tier limit on buyers' and sellers' credit lines in the pre-loan period and provides supply chain financial services to the customer within the limit based on a certain percentage of the receivables arising from the underlying transactions between the buyer and the seller, so as to prevent the customer from over-indebtedness. SY also commits to conduct timely tracking and inspection in the post-loan period to monitor the changes in the customer's creditworthiness. New business will be suspended to customers whose ratings have been downgraded due to adverse changes to avoid excessive borrowing.²⁰

¹³ SY, "ESG report" (2021), provided to Sustainalytics.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ SY, "2020, Environmental, Social and Governance Report" (2020) at: <https://www.syholdings.com/uploads/soft/20210615/1623766667.pdf>

¹⁷ Ibid.

¹⁸ State Council of the People's Republic of China, "Regulation on Ensuring Payments to Small and Medium-Sized Enterprises" at: https://english.www.gov.cn/news/pressbriefings/202007/17/content_WS5f11a035c6d00bd0989c61b7.html#:~:text=The%20new%20regulation%20on%20ensuring%20timely%20payments%20to,nation%27s%20top%20industry%20regulator%20said%20on%20July%2017

¹⁹ SY, "ESG report" (2021), provided to Sustainalytics.

²⁰ Ibid.

- The Group reported that it has set up systems to ensure data privacy and also has a Working Group that is responsible to manage and protect the Group's information security-related systems. Furthermore, SY reported that its proprietary cloud-based fintech platform received the Level 3 certification of China's National Information Security Level Protection Certification in December 2021 and was also awarded the ISO/IEC 27001: 2013 International Information Security Certification in October 2021 by CEPREI.²¹
- The Group adheres to with Civil Code of the People's Republic of China and the Cybersecurity Law of the People's Republic of China and has established a line of defence for information security, including adopting security technology platforms to improve information security, and requesting all employees to follow data usage procedures.²²
- As part of China's Environmental Impact Assessment Act, all projects related to construction, reconstruction, expansion or refurbishing are obliged to conduct an environmental risk assessment during the initial phase of project design and feasibility analysis. The act stipulates that the assessment must include the identification of key risk factors related to air, water, soil pollution and human health.

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

Section 3: Impact of Use of Proceeds

Two use of proceeds categories are aligned with those recognized by the SBP and SLP, while noting limitation under the third use of proceed category. Sustainalytics has focused on SME lending where the impact is specifically relevant in the local context.

Importance of financing SMEs in China

Small and medium-sized enterprises are the main drivers of job creation in China, accounting for 80% of non-governmental employment.²³ SMEs in Hong Kong, in particular, account for more than 98% of the total number of enterprises and about 45% of total employment (excluding civil service).²⁴

In 2020, the pandemic led to an all-time high unemployment rate of 6.2% and 7.2% in mainland China and Hong Kong, respectively, with SMEs being the hardest hit sector.^{25,26} The Chinese Government uses various channels to support SMEs, given that SMEs are a significant driver of job creation and face challenges from limited access to finance, low levels of financial inclusion, modest expenditure on research and development, inadequate use of information technology and the effects of the pandemic.²⁷ The Chinese Central Government has implemented several policies to improve access to finance for SMEs over the years, including subsidies from fiscal authorities, microcredit programmes to reduce lending rates, and reduced risk weights for SMEs with loans under CNY 5 million (USD 0.78 million).²⁸ In 2021, China's central bank committed to provide loans worth CNY 300 billion (USD 47 billion) to support SMEs within the year of 2021, with the average loan interest rate capped at around 5.5%.²⁹ Furthermore, the Chinese Ministry of Finance announced that the Chinese Government will allocate more than CNY 10 billion (USD 1.5 billion) from 2021 to 2025 to support more than 1,000 SMEs.³⁰ In addition, as part of its COVID-19 recovery measures, the Chinese Government also

²¹ Ibid.

²² SY, "2020, Environmental, Social and Governance Report" (2020) at: <https://www.syholdings.com/uploads/soft/20210615/1623766667.pdf>

²³ Jess M. (2021) "China's SMEs: how important are small firms to the economy, and what challenges are they facing?" China Macro Economy, at: <https://www.scmp.com/economy/china-economy/article/3155660/chinas-smes-how-important-are-small-firms-economy-and-what>

²⁴ Government of the Hong Kong Special Administration Region, "SME" (2021) at: https://www.success.tid.gov.hk/english/aboutus/sme/service_detail_6863.html

²⁵ Evelyn, C., "Unemployment ticks higher in China as coronavirus shock to economy persists", CNBC, at:

<https://www.cnbc.com/2020/05/15/unemployment-rises-in-china-as-coronavirus-shock-to-economy-persists.html>

²⁶ Thomson Reuters, (2021), "Hong Kong's Dec – Feb jobless rate at highest since 2004", at: <https://www.reuters.com/article/hongkong-economy-unemployment-idUSL1N2LE0ID>

²⁷ Asian Development Bank, "Major Challenges Facing Small and Medium-sized Enterprises in Asia and Solutions for Mitigating Them" (2016), at: <https://www.adb.org/publications/major-challenges-facing-small-and-medium-sized-enterprises-asia-and-solutions>

²⁸ Lam, W. et al. (2020), "Tackling Small and Medium-Sized Enterprises (SMEs) Financing in China", Annals of Economics and Finance, at: <http://aeconf.com/Articles/May2020/aef210110.pdf>

²⁹ Global Times, "China adds 300 billion yuan loans for SMEs, will give to qualified firms within the year", (2021), at:

<https://www.globaltimes.cn/page/202109/1233872.shtml?id=11>

³⁰ China Daily, "Innovative SMEs to get policy boost in financing", (2021), at: http://www.china.org.cn/business/2021-02/04/content_77187236.htm

provided relief measures for SMEs in the form of extensions for loan and interest repayments, credit support, reduction in rent, taxes and fees, lower financing costs and capital requirements.³¹

Based on the above context, Sustainalytics is of the opinion that SY’s financing of SMEs that are affected by natural disasters and pandemics has the potential to provide additional financial resources to SMEs in China and contribute to supporting employment and business in the country.

Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The instruments issued under the SY Holdings Group Social Financing Framework are expected to advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
SME Lending: Improving access to capital and facilitating integration into supply chains	8. Decent work and economic growth 9. Industries, innovation and infrastructure	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
SME Lending: Providing support amidst natural and health disasters	8. Decent work and economic growth 9. Industries, innovation and infrastructure	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
Access to essential services: Healthcare & medical	3. Good Health and well-being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all

³¹ Xiaobo, Z., (2020), “Reconciling SME Production in China with Coronavirus Control”, Center for Global Development, at: <https://www.cgdev.org/publication/reconciling-sme-production-china-coronavirus-control>

Conclusion

SY has developed the SY Holdings Group Social Financing Framework under which it may issue social bonds and loans and use the proceeds towards financing SMEs and access to essential services (healthcare). Sustainalytics considers that the use of proceeds are expected to provide positive social impact, although noting a limitation attributed to the healthcare category.

The SY Holdings Group Social Financing Framework outlines a process by which proceeds will be tracked, allocated and managed, with commitments made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the SY Holdings Group Social Financing Framework is aligned with the overall sustainability strategy of the Group and that the social use of proceeds categories are expected to contribute to the advancement of the UN Sustainable Development Goals 3 and 8. Additionally, Sustainalytics is of the opinion that SY has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is of the opinion that SY Holdings Group is well positioned to issue social bonds and loans and that the SY Holdings Group Social Financing Framework is robust, transparent and in alignment with the core components of the Social Bond Principles 2021 and Social Loan Principles 2021.

Appendix

Appendix 1: Social Bond / Social Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	SY Holdings Group Limited
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	SY Holdings Group Social Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 26, 2022
Publication date of review publication: Original publication date [please fill this out for updates]:	

Section 2. Review overview

SCOPE OF REVIEW

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

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

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

ROLE(S) OF REVIEW PROVIDER

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

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

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

Please refer to Evaluation Summary above.

Section 3. Detailed review

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

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories³² for the use of proceeds are aligned with those recognized by the Social Bond Principles and Social Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to contribute to underserved small and medium-sized enterprises, the overall supply chain ecosystem in China and advance the UN Sustainable Development Goals, specifically SDGs 3, 8 and 9, while also noting a limitation in the healthcare category.

Use of proceeds categories as per SBP:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

SY Holdings Group Limited's ESG Working Group, Industrial Financing and Treasury departments will be responsible to identify, shortlist and approve the potential assets and/or projects in line with the eligibility criteria as set out in the framework. SY Holdings Group Limited has risk management and customer acceptance policies, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers these risk management policies to be adequate and aligned with market expectations.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

³² The eligible social categories are: SME Lending (Improving access to capital and facilitating integration into supply chains), SME Lending (Providing support amidst natural and health disasters).

- Summary criteria for project evaluation and selection publicly available
- Other (please specify):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
- In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

SY Holdings Group Limited's Finance Department is responsible for the management and allocation of proceeds and will track the net proceeds using an internal tracking system. SY Holdings Group Limited intends to fully allocate the proceeds to the eligible projects within a period of 12 months from the date of issuance. Pending allocation, unallocated proceeds may be held in cash in accordance with SY Holdings Group Limited's cash investment policy. Sustainalytics considers this process to be in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

4. REPORTING

Overall comment on section *(if applicable)*:

SY Holdings Group Limited intends to report on the allocation and impact of the proceeds on its website or through the Group's ESG report annually until full allocation. The allocation report will include a summary of the eligible social projects funded, the total amount of proceeds allocated, and the balance of unallocated proceeds. SY Holdings Group Limited also commits to report the social impacts where feasible. Sustainalytics considers this process to be in line with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input checked="" type="checkbox"/> Social Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input type="checkbox"/> Number of beneficiaries | <input type="checkbox"/> Target populations |
| <input checked="" type="checkbox"/> Other ESG indicators (<i>please specify</i>): | Total SMEs funded, total loans disbursed to SMEs, quantity of medical consumables funded, length of roads and/or bridges constructed |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Company's Website, or Annual ESG Report |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

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

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

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

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

Review provider(s):

Date of publication:

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

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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