

Second-Party Opinion

China Water Affairs

Green Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the China Water Affairs Group Limited Green Finance Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018 and the Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Sustainable Water and Wastewater Management and Renewable Energy – are aligned with those recognized by the Green Bond Principles 2018 and Green Loan Principles 2021. Sustainalytics considers that the eligible categories are expected to improve water supply and quality, while also promoting renewable energy in China, and advance the UN Sustainable Development Goals, specifically Goals 6 and 7.



PROJECT EVALUATION / SELECTION China Water Affairs' internal process in evaluating and selecting projects is overseen by the Environmental Social Management System Working Group ("EWG") that meets every 12 months and includes the General Manager and other senior representatives from various departments. The EWG is responsible for project selection, ensuring compliance, and managing updates to the Framework. Shortlisted projects may be presented to the board for approval. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS China Water Affairs' process for management of proceeds is overseen by the Finance Team and the proceeds are tracked and allocated using a register. The net proceeds from each green financing transaction will be deposited in general funding accounts and earmarked to eligible projects. The Company intends to allocate all proceeds within 24 months of issuance. Pending allocation, proceeds will be held in accordance with the Company's liquidity guidelines. This is in line with market practice.



REPORTING China Water Affairs intends to report annually on allocation of proceeds and impact on its website, annual report, or ESG report until full allocation. The allocation report contains details of green financing transaction, aggregate amounts allocated to eligible green projects, share of financing versus refinancing, and balance of unallocated proceeds. In addition, China Water Affairs Group Limited is committed to reporting on relevant impact metrics. Sustainalytics views China Water Affairs Group Limited's allocation and impact reporting as aligned with market practice.

Evaluation date	April 01, 2021
Issuer Location	Hong Kong, China

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For inquiries, contact the Sustainable Finance Solutions project team:

Begum Gursoy (Amsterdam)
Project Manager
begum.gursoy@sustainalytics.com
(+31) 20 205 0082

Grace Paranjape (Amsterdam)
Project Support

Tina Ghaemmaghami (Toronto)
Project Support

Cheryl Tay (Singapore)
Client Relations
susfinance.apac@sustainalytics.com
(+852) 3008 2391

Introduction

China Water Affairs Group Limited (“China Water Affairs”, or the “Company”) is a publicly listed water utilities company in China with a focus on water supply. The Company is headquartered in Hong Kong, with operations management centres in Beijing and Shenzhen. As of September 2020, China Water Affairs owns a diverse portfolio across 62 cities in 14 provinces and three municipal cities in China, with a daily water supply and treatment capacity of more than 9,000,000m³.

China Water Affairs has developed the China Water Affairs Group Limited Green Finance Framework (the “Framework”) under which it intends to issue green bonds and loans (collectively referred to as “Green Financing Transactions”) and use the proceeds to finance and refinance, in whole or in part, existing and future projects that are expected to improve water supply and quality, while also promoting renewable energy in China. The Framework defines eligibility criteria in two areas:

1. Sustainable Water and Wastewater Management
2. Renewable Energy

China Water Affairs engaged Sustainalytics to review the China Water Affairs Green Finance Framework, dated April 2021, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP)¹ and the Green Loan Principles 2021 (GLP).² This Framework has been published in a separate document.³

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

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

- The Framework’s alignment with the Green Bond Principles 2018, as administered by ICMA, and the Green Loan Principles 2021, as administered by LMA, APLMA and LSTA⁵;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.7, 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 China Water Affairs’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. China Water Affairs representatives have confirmed (1) they understand it is the sole responsibility of China Water Affairs to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

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

¹ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

² The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

³ The China Water Affairs Green Finance Framework is available on China Water Affairs Group Limited’s website at: http://www.chinawatergroup.com/index_eng.asp

⁴ 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.

⁵ In addition to the Loan Markets Association, the GLP are also administered by the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association

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

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

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

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

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the China Water Affairs Green Finance Framework

Sustainalytics is of the opinion that the China Water Affairs Green Finance Framework is credible, impactful, and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of China Water Affairs' Green Finance Framework:

- Use of Proceeds:
 - The eligible categories – Sustainable Water and Wastewater Management, and Renewable Energy – are aligned with those recognized by the GBP and GLP. Sustainalytics notes that the eligible categories can improve water supply and quality, while also promoting renewable energy in China.
 - Under the Sustainable Water and Wastewater category, China Water Affairs may invest in projects related to construction, upgrades, and renovations of water supply and wastewater related facilities such as water supply plants, pumping stations, distribution networks, water monitoring systems, and sewage treatment plants. Sustainalytics notes that China Water Affairs has confirmed that treatment facilities will not treat wastewater from fossil fuel operations.
 - Within the category of Renewable Energy, the Company may invest in solar and wind energy projects such as energy production units and storage systems.
 - The lookback period for refinanced projects is no longer than 36 months prior to the issuance of green bonds and loans, which Sustainalytics considers to be in line with market practice.
- Project Evaluation and Selection:
 - China Water Affairs' internal process for evaluating and selecting projects is overseen by the Environmental Social Management System Working Group (EWG). The EWG meets every 12 months and is composed of the General Manager and other senior representatives from various departments. The EWG is responsible for selecting eligible green projects, ensuring project compliance with corporate environmental guidelines and eligibility criteria referenced in the Framework, and managing prospective updates to the Framework. Once the projects are shortlisted by the EWG, they will be presented to the board for approval.
 - Based on the establishment of the EWG and clarity on responsibilities, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - China Water Affairs' process for management of proceeds is overseen by China Water Affairs' Finance Team and the proceeds are tracked and allocated using a register. The register may contain key transaction details such as borrower and entity information, principal amount, interest, among others. The register may also contain allocation details such as the amount of proceeds allocated to each project and category of green project. The net proceeds from each

- Green Financing Transaction will be deposited in general funding accounts and earmarked to eligible green projects, and selected according to the eligibility criteria outlined in the framework.
- Pending allocation, proceeds will be held in accordance with China Water Affairs' liquidity guidelines in short-term deposits or investments that are not carbon intensive or conflicting with the Framework eligibility criteria.
- The Company intends to fully allocate funds within 24 months of issuance of Green Financing Transaction. Additionally, in the case that material project-related controversies emerge, the Company commits to substitute controversial project with an alternative eligible green project.
- Based on the establishment of a tracking process and clarity on temporary allocations, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - China Water Affairs intends to report on allocation and impact of proceeds on its website, Annual Report, or ESG report on an annual basis until full allocation or until maturity in case of any material changes. The allocation report contains details of the Green Financing Transaction, aggregate amounts allocated to eligible green projects, share of financing versus refinancing, and balance of unallocated proceeds. In addition, China Water Affairs Group Limited is committed to reporting on relevant impact metrics such as amount of water supplied before and after eligible green project in m³, amount of water reduced in m³, amount of wastewater treated in m³, CO₂ emissions reduced/avoided in tCO₂, etc.
 - Based on the transparent allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2018 and Green Loan Principles 2021

Sustainalytics has determined that the China Water Affairs Green Finance Framework aligns to the four core components of the GBP and GLP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Performance of China Water Affairs

Contribution of framework to China Water Affairs Group Limited's sustainability strategy

Sustainalytics is of the opinion that China Water Affairs demonstrates a strong commitment to sustainability, with a focus on the following three areas: (i) Economical Production – improve resource utilization efficiency and reduce energy and material consumption in production activities; (ii) Clean Production – apply comprehensive and preventive environmental protection strategies in production processes and services, and (iii) Ethical Production – ensure production activities have a positive impact on the environment and society at large.⁶

In April 2020, the Company established a series of operational initiatives within each of the areas described above with the goal of emphasizing its commitment to green and sustainable development. As part of this process, China Water Affairs sets a series of qualitative goals such as increasing the efficiency of water pumps through technologies and repairing water pipelines to reduce water leakages, as well as adopting clean energy across its operations. In addition, China Water Affairs established quantitative time-bound targets that have been shared with Sustainalytics and assessed on a confidential basis.⁷

Since 2015, China Water Affairs has set energy consumption and water leakage ratios⁸ as its primary operational KPIs and has implemented environmental controls⁹ in its daily operations to optimize environmental performance.¹⁰ As a result of these measures, the Company reduced its average power consumption per unit of water supply from 290 kWh per 1,000 cubic meters in 2015 to 226 kWh per 1,000 cubic meters in 2019, while also reducing its water leakage ratio from 18% to 15% within the same time frame. Regarding its efforts in renewable energy, China Water Affairs actively leases the idle space in its water

⁶ China Water Affairs Group Limited, Environmental, Social and Governance Report 2020, at: http://www.chinawatergroup.com/pdfdown/CHWaterESGE_eng.PDF

⁷ China Water Affairs has informed Sustainalytics that it may consider releasing these targets publicly. Sustainalytics encourages the Company to do so to ensure transparency.

⁸ This is the ratio between water loss and water entering into the network, including physical water losses from leakage, pipe failure, and accidents in the pipe network.

⁹ This includes increasing the efficiency of water pumps through technologies, mechanical enhancements, adopting renewable energy and green construction, amongst other initiatives.

¹⁰ China Water Affairs Group Limited, Environmental, Social and Governance Report 2020, at: http://www.chinawatergroup.com/pdfdown/CHWaterESGE_eng.PDF

plants to external parties to deploy distributed PV power generation for the Company.¹¹ In turn, this helps increase the ratio of clean energy in the Company's total energy consumption. On aggregate, a total of 40,086 MWh of PV solar power was generated between FY2019-2020, representing approximately 10% of the Company's electricity consumption in that reporting period.¹²

Sustainalytics is of the opinion that the China Water Affairs Green Finance Framework is directly aligned with the Company's ongoing sustainability efforts and will further the Company's action on its key environmental priorities.

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

While Sustainalytics recognizes that the net proceeds from green bonds and loans issued under the Framework will be directed to projects that are expected to generate overall positive environmental impact, it is acknowledged that such projects may pose adverse environmental and social risks. Some of these risks could include land-use changes and biodiversity issues associated with large-scale infrastructural development, as well as occupational health and safety. Sustainalytics is of the opinion that China Water Affairs is able to manage and mitigate potential risks through the context in which the Company operates, and implementation of the following:¹³

- The Company adheres to several national laws, including the Environmental Impact Assessment Law of the People's Republic of China¹⁴ which requires companies to perform an environmental risk assessment for all projects (construction, reconstruction, expansion or refurbishment) during the initial phase of project design and feasibility analysis. The act stipulates that the evaluation must include the identification of key risk factors related to air, water, soil pollution or human health. According to Chinese law, all companies are required to undergo an assessment by an independent and certified environmental impact assessment agency in order to avoid any conflict of interest.¹⁵
- The Company developed an Environmental and Social Management System (the "ESMS") in 2011 with the purpose of providing a framework for analyzing potential environmental and social risks and to help guide the development of remedial measures, when necessary. The ESMS, most recently updated in 2018, includes a standardized management system that focuses on five key risk areas identified by the Company: water production, water supply, safety, service, and branding. Throughout the implementation of projects, the Company uses the ESMS to disclose information, discuss areas of concern and involve relevant stakeholders when required. As part of this process, the Company inspects and supervises the compliance of its subsidiaries on an irregular basis, while conducting formal evaluations on an annual basis.
- China Water Affairs has implemented safe production regulation standards which includes the appointment of a safety officer, and a specific safety target within each level of the corporation. As part of these measures, the Company conducts regular risk inspections. In addition, the Company runs routine safety trainings and tests employees to ensure that they are aware of the management requirements and operating procedures.¹⁶ The Company reports on China Water Affairs confirmed that there were no material safety liability incidents within the FY2019-2020 reporting period.
- The Company's Board is responsible for maintaining an internal control system to manage potential risks. This includes establishing a risk management framework.¹⁷ This framework includes controls for the organization's various departments, including finance, engineering, operations, and human resources.

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

¹¹ China Water Affairs Group Limited, Environmental, Social and Governance Report 2020, at: http://www.chinawatergroup.com/pdfdown/CHWaterESGE_eng.PDF

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ Zhengzhou Foreign-funded Enterprise Service Center, "Environmental Impact Assessment Law of the People's Republic of China", at: <https://www.waizi.org.cn/law/11686.html>

¹⁵ The National People's Congress of the People's Republic of China, Environmental Impact Assessment Law of the People's Republic of China, January 2019, at: <http://www.npc.gov.cn/npc/sjxflfg/201906/5e47c4866d5b44ff8b338997e37ee2cc.shtml>

¹⁶ China Water Affairs has informed Sustainalytics that all operating procedures and policies are confidential.

¹⁷ *Ibid.*

Section 3: Impact of Use of Proceeds

The two use of proceeds categories are aligned with those recognized by the GBP and GLP.

The importance of promoting sustainable water and wastewater management in China

According to the World Bank, the “effective management of water resources” will play a critical role in ensuring the continuation of China’s economic prosperity.¹⁸ This will be a key consideration for China as it seeks to continue its economic growth while addressing the water scarcity that affects certain parts of the country due to uneven distribution of water resources.¹⁹ With continued population growth, urbanization and socioeconomic advancements, stress on water resources has the potential to exacerbate well into the future.²⁰ This could potentially have a significant impact on small and medium sized cities and other rural areas where there is less infrastructure to support water supply, sanitation and flood protection.²¹

China’s rapid socioeconomic development over the past decades has had adverse side-effects on water quality and availability.²² Growth in urbanization and increasing domestic wastewater discharge is adding pressure on water quality and availability due to increased concentrated water demand and wastewater effluents.^{23,24} In order to tackle the effects of these realities, China has integrated several plants for water resource management in the 13th Five-Year Plan (the “Plan”). This document outlines important water-related targets including on surface water quality, water consumption and sewage processing rates in cities.²⁵ In 2020, the government allocated RMB 3.5 billion (USD 493 million) from the central budget to investments in project construction for water environment treatment,²⁶ and announced a plan to invest further RMB 1 trillion (USD 140 billion) in a series of water conservancy projects to help meet its targets.

Based on above, Sustainalytics is of the opinion that financing projects in sustainable water management category is expected to positively contribute to the country’s ability to protect its water supply and ensure sound water management practices are in place for future growth.

The impact of increasing energy generation from renewable energy sources in China

Despite having the world’s largest installed capacity of hydropower, solar and wind power, renewable energy comprised approximately 40% of China’s total installed electric power capacity in early 2020, and made up only 26% of total power generation.²⁷ Coal heavily dominates the remaining mix, accounting for approximately 69% of electricity production according to the International Energy Association.²⁸ Nevertheless, renewable energy output increased by 8.4% in 2020 from 2019, with China producing 2,214.8 TWh of renewable electricity in 2020.²⁹ On a ten-year basis, renewable power generation grew by 36.6% per annum, further highlighting China’s determination in decarbonizing power generation.³⁰ On a national scale, China has committed to achieving a 60-65% carbon intensity reduction by 2030, compared to 2005 levels.³¹ Given that power generation accounts for a substantial part of China’s current GHG emissions, developing low-carbon electricity

¹⁸ The World Bank, “China: A Watershed Moment for Water Governance”, (2018), at: <https://www.worldbank.org/en/news/press-release/2018/11/07/china-a-watershed-moment-for-water-governance>

¹⁹ *Ibid.*

²⁰ WRI, “17 Countries, Home to One-Quarter of the World’s Population, Face Extremely High Water Stress” (2019), at: <https://www.wri.org/blog/2019/08/17-countries-home-one-quarter-world-population-face-extremely-high-water-stress>

²¹ The World Bank, “China: A Watershed Moment for Water Governance”, (2018), at: <https://www.worldbank.org/en/news/press-release/2018/11/07/china-a-watershed-moment-for-water-governance>

²² Ma, Ting et al. (2020), “China’s improving inland surface water quality since 2003”, at: <https://advances.sciencemag.org/content/6/1/eaau3798>

²³ Bao, Chao et al. (2019), “Scenario Modeling of Urbanization Development and Water Scarcity Based on System Dynamics: A Case Study of Beijing–Tianjin–Hebei Urban Agglomeration, China”, at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6843306/>

²⁴ Ma, Ting et al. (2020), “China’s improving inland surface water quality since 2003”, at: <https://advances.sciencemag.org/content/6/1/eaau3798>

²⁵ The State Council of The People’s Republic of China, “China’s environment targets in 13th Five-Year Plan” (2016), at: http://english.www.gov.cn/policies/infographics/2016/03/09/content_281475304125348.htm

²⁶ The State Council of The People’s Republic of China, “China ramps up efforts to improve water environment”, (2020), at: http://english.www.gov.cn/statecouncil/ministries/202003/24/content_WS5e7a02a5c6d0c201c2cbf599.html

²⁷ China Energy Portal, “Tracking China’s transition to sustainable energy”, (2020), at: <https://chinaenergyportal.org/2020-q2-electricity-other-energy-statistics/>

²⁸ International Energy Association, “Electricity Mix in China, Q1 2020”, at: <https://www.iea.org/data-and-statistics/charts/electricity-mix-in-china-q1-2020>

²⁹ Argus Media, “China’s 2020 renewable energy output rises” (2021), at: <https://www.argusmedia.com/en/news/2182487-chinas-2020-renewable-energy-output-rises#:~:text=China%20produced%20%2C214.8TWh%20of,%2C%20wind%2C%20solar%20and%20biomass>

³⁰ BP, “Statistical Review of World Energy 2020”, (2020), at: <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf>

³¹ Carbon Brief, “Analysis: China’s new 2030 targets promise more low carbon power than meets the eye” (2020), at: <https://www.carbonbrief.org/analysis-chinas-new-2030-targets-promise-more-low-carbon-power-than-meets-the-eye#:~:text=The%20new%20NDC%20targets%20for,the%20earlier%20target%20of%2020%25>

generation has the potential to decrease the carbon intensity of electricity and reduce absolute GHG emissions, all else being equal.

Considering the above, Sustainalytics is of the opinion that by financing electricity generation from renewable sources and encouraging its subsidiaries to follow suite, China Water Affairs is well positioned to assist China in meeting its renewable energy targets and reducing GHG emissions from the nation's power sector.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) and loan(s) issued under the China Water Affairs Green Finance Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Renewable Energy	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency

Conclusion

China Water Affairs has developed the China Water Affairs Green Finance Framework under which it may issue green bonds and loans and the use of proceeds to finance existing and/or future projects that are expected to improve water supply and quality, while also promoting renewable energy in China. Sustainalytics considers that the projects funded by the green bond and loans proceeds are expected to provide positive environmental impact.

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

Based on the above, Sustainalytics is confident that China Water Affairs Group Limited is well-positioned to issue green bonds and loans and that the China Water Affairs Green Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018 and Green Loan Principles 2021.

Appendix

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

Section 1. Basic Information

Issuer name:	China Water Affairs Group Limited
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	China Water Affairs Green Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 01, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

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

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

- | | |
|--|--|
| ☒ Use of Proceeds | ☒ Process for Project Evaluation and Selection |
| ☒ Management of Proceeds | ☒ Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| ☒ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification | ☐ Rating |
| ☐ Other (<i>please specify</i>): | |

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

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

Please refer to Evaluation Summary above.

Section 3. Detailed review

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

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds – Sustainable Water and Wastewater Management and Renewable Energy – are aligned with those recognized by the Green Bond Principles 2018 and Green Loan Principles 2021. Sustainalytics considers that the eligible categories are expected to improve water supply and quality, while also promoting renewable energy in China, and advance the UN Sustainable Development Goals, specifically Goals 6 and 7.

Use of proceeds categories as per GBP:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

China Water Affairs' internal process in evaluating and selecting projects is overseen by the Environmental Social Management System Working Group ("EWG") that meets every 12 months and includes the General Manager and other senior representatives from various departments. The EWG is responsible for project selection, ensuring compliance, and managing updates to the Framework. Shortlisted projects may be presented to the board for approval. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|--|---|
| ☒ Credentials on the issuer's environmental sustainability objectives | ☒ Documented process to determine that projects fit within defined categories |
| ☒ Defined and transparent criteria for projects eligible for Green Bond proceeds | ☒ Documented process to identify and manage potential ESG risks associated with the project |
| ☒ Summary criteria for project evaluation and selection publicly available | ☐ Other <i>(please specify)</i> : |

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):

China Water Affairs' process for management of proceeds is overseen by the Finance Team and the proceeds are tracked and allocated using a register. The net proceeds from each green financing transaction will be deposited in general funding accounts and earmarked to eligible projects. The Company intends to allocate all proceeds within 24 months of issuance. Pending allocation, proceeds will be held in accordance with the Company's liquidity guidelines. This is in line with market practice.

Tracking of proceeds:

- ☒ Green 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):

China Water Affairs intends to report annually on allocation of proceeds and impact on its website, Annual Report, or ESG report until full allocation. The allocation report contains details of green financing transaction, aggregate amounts allocated to eligible green projects, share of financing versus refinancing, and balance of unallocated proceeds. In addition, China Water Affairs Group Limited is committed to reporting on relevant impact metrics. Sustainalytics views China Water Affairs Group Limited's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

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

Information reported:

- ☒ Allocated amounts
 ☐ Green Bond financed share of total investment
- ☐ Other (please specify):

Frequency:

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

Impact reporting:

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

Information reported (expected or ex-post):

- ☒ GHG Emissions / Savings
 ☐ Energy Savings
- ☒ Decrease in water use
 ☒ Other ESG indicators (please specify): Several quantitative indicators as outlined in the Framework.

Frequency

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

Means of Disclosure

- ☐ Information published in financial report
 ☐ Information published in sustainability report
- ☐ Information published in ad hoc documents
 ☒ Other (please specify): Company's Annual Report, ESG Report or website.
- ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

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

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

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- ☐ Consultancy (incl. 2nd opinion)
 ☐ Certification
- ☐ Verification / Audit
 ☐ Rating

☐ Other (*please specify*):

Review provider(s):

Date of publication:

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

- i. **Second-Party Opinion:** An institution with environmental 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 Green 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 Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental 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 environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally 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 Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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