An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings’ opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer’s most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See Analytical Approach: Second Party Opinions.

Second Party Opinion

Zhangzhou Jiulongjiang Group Co. Ltd.‘s United Nations Sustainable Development Goals Framework

Sept. 20, 2023

Location: China
Sector: Pharmaceuticals

Alignment With Principles

- ✔ 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

The framework’s eligibility criteria rely on third party and established definitions. Each eligible category references taxonomies, Chinese technical standards, certifications or official definitions (for affordable housing), adding credibility and transparency to project selection.

The framework includes transparent impact metrics, helping fund providers monitor the performance of the invested projects. The company will disclose the methodologies and assumptions used to calculate impact indicators (both expected and actual), subject to data availability.

Weaknesses

The company solely relies on the green building certifications that do not necessarily specify minimum energy saving thresholds, despite appearing better than local standards. This limits our insight on the overall impact.

Areas to watch

Zhangzhou Jiulongjiang’s future plan and initiatives to gradually reduce indirect exposure to fossil fuel.

The company’s disclosures are limited, with no sustainability report, which is common for local government-owned entities in China.

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spglobal.com/ratings  This product is not a credit rating  Sept. 20, 2023 1
Eligible Green Projects Assessment Summary

Eligible projects under Zhangzhou Jiulongjiang’s sustainable development goals framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

<table>
<thead>
<tr>
<th>Green building</th>
<th>Light green</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition, construction, maintenance, and renovation of buildings that have obtained or will obtain one of the following green building certifications:</td>
<td></td>
</tr>
<tr>
<td>• Chinese Green Building Evaluation Label – 2 Star or above (Design / Operations Label)</td>
<td></td>
</tr>
<tr>
<td>• Building Research Establishment Environmental Assessment Method (BREEAM) – Excellent or above</td>
<td></td>
</tr>
<tr>
<td>• U.S. Leadership in Energy and Environmental Design (LEED) – Gold or above</td>
<td></td>
</tr>
<tr>
<td>• Hong Kong BEAM Plus - Gold or above</td>
<td></td>
</tr>
<tr>
<td>• Building and Construction Authority (BCA) Green Mark – Gold or above</td>
<td></td>
</tr>
<tr>
<td>• Any other equivalent green building certifications as determined by the company</td>
<td></td>
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</tbody>
</table>

Renovation of existing buildings should translate into at least 15% energy performance improvement and one level improvement in green building certification.

<table>
<thead>
<tr>
<th>Energy efficiency</th>
<th>Light green</th>
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</thead>
<tbody>
<tr>
<td>Increase of energy efficiency in buildings through use of energy-efficient technology—such as utilization of renewable energy, building information modeling (BIM) technology etc.—that achieves at least 15% reduction in energy consumption and meet relevant national standards.</td>
<td></td>
</tr>
</tbody>
</table>

Installation, replacement, and maintenance of energy-efficient equipment, such as smart metering systems, high-efficient heating, ventilation and air conditioning (HVAC) systems, that results in at least 15% cut in energy consumption and meet relevant national standards.

Renovation of lighting systems through the use of light-emitting diodes (LEDs), natural light sources, lighting control systems etc., that cause an at least 15% reduction in energy consumption and meet relevant national standards.

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

Zhangzhou Jiulongjiang is a local government-owned entity based in China's Zhangzhou city. The company was established in 1980 and primarily engages in the manufacture of proprietary Chinese medicine (60% of gross profit in 2022) and bearings (6%), with asset management (23%) and other activities (11%) rounding up the portfolio. As the industrial investment and financing vehicle of the Zhangzhou municipal government, Zhangzhou Jiulongjiang plays an important role in the socio-economic development of the city, including through the financing of large economic and development zones, and of safe and affordable housing for local communities.

The Zhangzhou State-owned Assets Supervision and Administration Commission of the State Council (SASAC) owns 90% of Zhangzhou Jiulongjiang, and the Fujian Province Finance Bureau holds the balance.

Material Sustainability Factors

Climate transition risk

Increased energy use in buildings has been a major contributor to climate change, representing around a third of global greenhouse gas (GHG) emissions on a final-energy-use basis, according to the International Energy Agency (IEA). This leaves the sector highly susceptible to the growing public, political, legal, and regulatory pressure to accelerate climate goals. Building occupiers and operators may face higher energy bills as power prices rise, and higher capital expenditures as upgrades are required to accommodate the energy transition and meet more stringent efficiency standards. This could affect household purchasing power and the competitive strengths of commercial and industrial properties. Incremental climate-related investments can require significant capital outlays, but such spending will potentially reduce the risk of obsolescence due to changes in regulation or climate goals. In addition, low-carbon properties may achieve higher cost efficiencies or attract premium rents in the longer term, therefore enhancing their value.

Access and affordability

Low housing stock and the lack of affordable options can severely affect people's livelihoods, especially vulnerable, low-income populations that can face the threat of homelessness. Access and affordability are especially important for residential tenants because rents can account for a large portion of their income. Lack of accessibility of affordable commercial properties can also hinder the sustainable growth of local communities.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these could include acute risks—such as wildfires, floods, and storms—which are becoming more frequent and severe—as well as chronic risks—such as long-term changes in temperature and precipitation patterns and sea level rise. Acute and chronic risks could damage properties or place tenant health and safety at risk. These could also require investments to manage potential effects or, in severe cases, relocation of tenants. While the aggregate impact is moderate since the type, number, and magnitude of these risks varies by region, highly exposed regions may be subject to material physical climate risk exposure. Most participants have some insurance coverage, but it could become increasingly difficult to secure insurance for the most exposed assets, absent adaptation.
Pollution

The manufacturing of pharmaceutical products and the cleaning phase involve hazardous chemicals that can contaminate the premises and harm the health of surrounding communities. The leaching of active pharmaceutical ingredients into the natural environment across the sector’s value chain can hurt ecosystems and biodiversity. For example, the presence of compounds from oral contraceptives, psychiatric drugs, and excessive antibiotics in wastewater and soil have affected wildlife or can be harmful to the human population.

Issuer And Context Analysis

Zhangzhou Jiulongjiang's objectives extend beyond its core operations in pharmaceuticals. This is given the company’s mandate to support the economic and social development of the Zhangzhou municipality. Zhangzhou Jiulongjiang has to contribute to the country State Council’s overall guidance on green development and to the national “14th Five-Year” Strategic Plan of “Environmental Protection and Development of Low-Carbon Economy”. The framework’s green building and energy efficiency projects aim to address climate transition risk, while affordable housing projects contribute to access and affordability. These are material sustainability factors (MSFs) for the company.

Zhangzhou Jiulongjiang does not have sustainability disclosure or reporting. We therefore have limited insight on the company’s detailed agenda to address these MSFs and how its other activities impact sustainability performance beyond the projects included in this framework. That said, Zhangzhou Jiulongjiang commits to disclose on its website the financed projects' impact. Reporting will cover the actual and expected impact of financed projects with quantitative impact indicators. The company will also disclose the methodologies and assumptions used to calculate the impact indicators, subject to data availability. We view this as a strong practice.

Zhangzhou Jiulongjiang has set targets to reduce carbon emissions intensity by 15% and to increase energy efficiency by 15% by 2025, from 2021 levels. Such targets mitigate the company’s exposure to climate transition risks. While low-carbon economy and energy efficiency are part of Zhangzhou Jiulongjiang's sustainability core areas, the targets do not look ambitious.

Affordable housing projects contribute to the access and affordability of citizens in Zhangzhou city. Although access and affordability typically refer to the affordable access to medication under the pharmaceutical context, Zhangzhou Jiulongjiang, as a government enabler, also has the responsibility to promote the socioeconomic development of Zhangzhou city. Affordable housing is one of the company’s sustainability core areas to contribute to sustainable cities and communities, and help reduce poverty. Zhangzhou Jiulongjiang has set a target to provide affordable housing and basic services to 10,000 families in Zhangzhou city by 2025.

Physical risks are important considerations for green buildings and energy efficiency investments in assets. Zhangzhou Jiulongjiang mainly relies on third-party feasibility studies and environmental impact assessments conducted to assess and mitigate potential physical climate risks for each project. The company has limited public disclosure on how it addresses physical risks in general, and physical climate risks in particular, beyond compliance with local building regulations.
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

<table>
<thead>
<tr>
<th>Principle</th>
<th>Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Bond Principles, ICMA, 2023</td>
<td>✔</td>
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<tr>
<td>Social Loan Principles, LMA/LSTA/APLMA, 2023</td>
<td>✔</td>
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<tr>
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<td>✔</td>
</tr>
<tr>
<td>Sustainability Bond Guidelines, ICMA, 2021</td>
<td>✔</td>
</tr>
</tbody>
</table>

✔ Use of proceeds

All green project categories are shaded in green and all social project categories are aligned with the principles. The company commits to allocate the net proceeds from issuances 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. In addition, the company will disclose the share of financing versus refinancing in its allocation of proceeds. The maximum look-back period is three years, in line with market practice.

✔ Process for project evaluation and selection

The framework outlines the process to select and approve eligible projects. The company’s cross-departmental sustainable finance working group will meet at least twice a year to discuss and screen projects according to the framework’s eligibility and exclusion criteria. Zhangzhou Jiulongjiang will conduct feasibility assessment to identify and manage the associated environmental and social risks. Shortlisted projects will then be presented to the board of directors for final approval. Eligibility criteria reference the China Green Bond Endorsed Projects Catalogue certifications and quantitative performance thresholds for all the green categories. Local government definitions or standards define the target population for the social category. Incorporating clear eligibility criteria for all eligible project categories adds transparency to projects screening.

✔ Management of proceeds

The net proceeds of each sustainable financing transaction will be deposited in the general funding account and earmarked for allocation to eligible projects. Zhangzhou Jiulongjiang will maintain a register to track the allocation of proceeds. The company commits to monitoring the net proceeds of all outstanding transactions, including reallocating to replacement projects that comply with the eligibility criteria, so soon as reasonably practicable. Pending allocation, unallocated proceeds will be held in cash deposits.

✔ Reporting

Zhangzhou Jiulongjiang commits to reporting the allocation of the net proceeds, and the expected and actual environmental and social impact of the financed projects. It will report the information on an annual basis until full allocation of the net proceeds. Such information will be publicly available on the company’s website. Zhangzhou Jiulongjiang will also disclose the calculation methodologies and key assumptions used for the expected and actual impact indicator calculation, subject to data availability.
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.

For each financing under the framework, Zhangzhou Jiulongjiang expects to allocate 55% of proceeds under the framework to green building, 35% to energy efficiency, and the remaining 10% to affordable housing.

The eligible assets will include assets for which Zhangzhou Jiulongjiang has commenced operations or placed-in-service prior to the applicable sustainable financing, unless otherwise noted in the respective financing documents.

Green project categories

<table>
<thead>
<tr>
<th>Green building</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assessment</strong></td>
<td>Light green</td>
</tr>
</tbody>
</table>

Acquisition, construction, maintenance, and renovation of buildings that have obtained or will obtain one of the selected green building certifications.

Analytical considerations

- The construction, maintenance, and renovation of green building projects support climate change mitigation by alleviating greenhouse gas emissions. All eligible buildings will have to be certified within three years after construction is complete. This timeframe is determined based on the typical construction and certification process in China. Yet, a shorter timeframe is a stronger market practice, in our view. From our communication with the issuer, the energy efficiency performance of the selected green building certifications appears better than local standards, bringing 10%-20% energy saving. However, the framework does not include the highest green building certifications.

- Given no information on the planned split between new built and existing buildings, the potential embodied emissions and the climate impact from new construction could be large. When considering the embodied emissions from new construction, Zhangzhou Jiulongjiang mainly relies on the selected certifications to address a given building's environmental impact throughout its life cycle (e.g. sustainable materials use, waste management during construction and demolition). While some green building certifications offer credit for addressing embodied emissions, their point-based systems mean that the required certification levels could be achieved without addressing this issue thoroughly. In addition to green building certifications, eligibility criteria include relevant national standards, such as Technical Standard for Near-Zero Energy Building, to guide the specifications of constructions. Zhangzhou Jiulongjiang will also manage buildings’ energy use by installing monitoring systems to track energy consumption.

- The company has indicated that fossil fuel-based heating systems in buildings are not eligible. Projects can be warehouses or industrial facilities for Zhangzhou Jiulongjiang’s operations, and the company confirmed that they would not serve fossil-fuel or heavy-emitting sectors.

- Each project requires third-party feasibility studies and environmental impact assessments, including on physical climate risks and resilience. In addition, while some green building certifications address climate resilience, it may be possible to achieve the level required by the framework without fully addressing the issue, due to their point-based systems.

- The risk of land use change appears to be low because these projects are planned and developed as per the local government’s infrastructure plan. New construction of buildings will take place on developed or government approved sites, which are concentrated in Zhangzhou city's urban area and industrial zones, with low biodiversity risk.
Energy efficiency

Assessment | Description
--- | ---
Light green | (i) Increase of energy efficiency in buildings through monitoring, (ii) installation, replacement, and maintenance of energy-efficient equipment, and (iii) renovation of lighting system that achieve at least 15% reduction in energy consumption and meet relevant national standards.

Analytical considerations

- Energy efficiency projects contribute to climate change mitigation by reducing energy use by at least 15% and meeting relevant national standards, such as Intelligent Building Design Standards, Energy-saving Design Standards for Public Buildings etc. Eligible projects include (i) modelling and monitoring of energy use with BIM technology; (ii) installation, replacement, and maintenance of energy-efficient equipment, such as smart metering systems, HVAC systems; (iii) renovation of lighting systems, such as the use of LEDs, natural light sources, light control systems.

- Energy efficiency upgrades and maintenance of fossil-fuel based equipment or machinery are not eligible. At present, electricity from the coal-dominated power grid in China remains Zhangzhou Jiulongjiang's main energy source for its core operations. The country's share of non-fossil fuels in its total energy mix is likely to be 18.3% in 2023, up from 17.5% in 2022 (See "China to raise share of non-fossil fuels in total energy mix to 18.3% in 2023," S&P Global Commodity Insights, April 13, 2023). The risk of emissions lock-in from investing in such upgrades and maintaining electricity-based equipment appears to be low. In the meantime, Zhangzhou Jiulongjiang is exploring renewable alternatives such as solar, wind, and hydropower, and is aiming to gradually reduce its indirect exposure to fossil fuels.

- Energy-efficient projects in physical assets present some physical climate risks, which the third-party feasibility study and environmental impact assessment seem to cover.

- End-of-life lighting waste could be a risk introduced by upgrading the lighting system. Direct disposal to landfill of lightbulbs and lamps could result in toxic chemical substances polluting the air, soil, and groundwater. Zhangzhou Jiulongjiang shared they will not dispose of these end-of-life light waste to landfills. The waste will be recycled by separating and recovering the components from the bulbs, according to local regulations.
S&P Global Ratings’ Shades of Green

**Assessments**

- **Dark green**: Activities that correspond to the long-term vision of an LCCR future.
- **Medium green**: Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.
- **Light green**: Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.
- **Yellow**: Activities that do not have a material impact on the transition to an LCCR future, or.
- **Orange**: Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.
- **Red**: 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.

**Description**

- **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).

**Example projects**

- **Solar power plants**
- **Energy efficient buildings**
- **Hybrid road vehicles**
- **Health care services**
- **Conventional steel production**
- **New oil exploration**
Social project categories

**Affordable housing**

Construction, maintenance, and upgrading of affordable houses or resettlement housing projects for the target population that lives in poor conditions as defined by the local authority.

**Analytical considerations**

- The construction, maintenance, and upgrade of affordable houses or resettlement housing projects help improve housing conditions for low-income or homeless families.

- Zhangzhou Jiulongjiang commits that the housing will not be sold for profit, and that the local government will set price and financing terms to ensure they are in line with market standards. In addition, the target population is well defined, referencing Housing and Urban-Rural Development Administration of Fujian Province's definition of poor living conditions. Specifically, general public will be eligible only if they (i) have permanent residence registration in the Zhangzhou city; (ii) have no housing or with extreme housing difficulties; and (iii) meet the low-income standard announced by the municipal government.

- However, the framework does not set out specific environmental criteria for the housing units, which could create exposure to climate resilience or climate transition issues.
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:

<table>
<thead>
<tr>
<th>Use of proceeds</th>
<th>SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy efficiency</td>
<td>![Sun icon] 7. Affordable and clean energy*</td>
</tr>
<tr>
<td>Affordable housing</td>
<td>![People and building icons] 1. No poverty* 11. Sustainable cities and communities*</td>
</tr>
</tbody>
</table>

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

- China to raise share of non-fossil fuels in total energy mix to 18.3% in 2023, April 13, 2023
- ESG Materiality Map Pharmaceuticals, Oct. 27, 2022

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