

China Green Bond Principles

Introduction

The China Green Bond Principles (the Principles) are self-regulated frameworks for stakeholders' reference to best practice of the Green Bond Market. Its purpose is to promote standardization and high-quality development across China Green Bond Market.

The Principles fully respect internationally accepted standards and refer to the "Green Bond Principles" (GBP) issued by the International Capital Market Association (ICMA) and other relevant regulations.

The Principles are jointly completed by the member units of the China Green Bond Standards Committee and other relevant institutions, and have been reviewed and approved by the Green Bond Standards Committee meeting.

The Principles clarify the four core components of Green Bonds based on international practices and domestic situation in China, and put forward the basic requirements for Green Bond issuers and related institutions.

The Principles will be continually reviewed and updated to reflect changes in the self-regulatory policy framework and market developments in China Green Bond Market.

1. Definition of Green Bond

Green Bonds are any type of bond instrument which the proceeds will be exclusively applied to support green industries, green projects, or green economic activities that meet the prescribed conditions and are issued according to legal procedures and repay principal and interest as agreed.

2. Core Components of Green Bond

Green Bonds mentioned in the Principles should be aligned with the four core components, which are the use of proceeds, project evaluation and selection, management of proceeds, and information disclosure.

2.1 Use of proceeds

The utilization of the Green Bonds proceeds must be 100% limited in green industries, green economic activities and other related green projects that meet the prescribed conditions.

The Principles state the green projects are defined as projects that fulfill the requirements for green and low-carbon development, help improve the environment, or bring certain environmental benefits.

The scope of identification of green projects should be based on the *Green Bond Endorsed Projects Catalogue (2021 Edition)*. (No. 96 [2021], PBOC) jointly issued by the People’s Bank of China, the National Development and Reform Commission and the China Securities Regulatory Commission. The scope of identification of green projects by overseas issuers can also be based on *Common Ground Taxonomy: Climate Change Mitigation, EU Taxonomy Climate Delegated Acts*, and other international green industry classification standards.

Proceeds from Green Bonds should be used directly for the construction, operation, and acquisition of green projects, supplementing the working capital of supporting projects, or repayment of interest-bearing debts of green projects.

2.2 Project evaluation and selection

The issuer should clearly communicate the specific information of the green projects to investors. Issuer should clarify the evaluation and selection process and disclose it if there is no specific projects are identified at issuance. The factors to be considered include but are not limited to:

2.2.1 The classification standards for the selection of green projects of the bond and the technical standards or specifications that should be

met, as well as the standards, methods, basis and essential prerequisites for the environmental impact calculation of the selected green projects.

2.2.2 The decision-making process of green project selection, which includes but is not limited to the basis for designing the process, the division of responsibilities, and the specific implementation process.

2.2.3 The selected green projects should be legally compliant, in line with industry policies and corresponding technical standards or specifications, and relevant procedures, filings or legal documents should be in place and be true, accurate, and complete, and issuer should promise that there are no false records, misleading statements or material omission.

Issuers are suggested to engage an independent third-party evaluation and certification agency to evaluate and verify the green bonds, explain whether the green bonds meet the four core elements, issue a written external review report, and publicize it to investors. It is encouraged to make disclosure of the greenness of bonds and the evaluation methods in the conclusions of the external review report.

2.3 Management of proceeds

The management requirements for Green Bonds proceeds include but are not limited to:

2.3.1 The issuer should open a special account or establish a dedicated ledger to manage the receipt, disbursement and recovery of the Green Bonds proceeds and ensure that the proceeds are used in strict accordance with the purpose stipulated in the issuance documents and that the whole process can be tracked.

2.3.2 Under the circumstance that the plan for the use of proceeds goes on as expected, the issuer can, with the approval of the company's board of directors or the internal authority, use the temporarily idle proceeds raised by the Green Bond for cash management and invest in highly secure and liquid products, such as Chinese central government bonds, policy bank financial bonds, local government bonds, etc. A single investment period shall not exceed 12 months.

2.3.3 If there is a change in the use of proceeds, the proceeds should still be used within the scope of the green projects listed in 2.1 after the change.

2.4 Duration of Information disclosure

Issuers of Green Bonds should disclose information post issuance and during the life of the Green Bonds. The disclosure requirements include but are not limited to:

2.4.1 Either the issuer or the proceeds supervisory authority should

record, keep and update the use of the proceeds on time until all the proceeds have been allocated, and updated in time when major events occur. The issuer should disclose the use of the proceeds in the previous year in a regular report or a special report every year, including the overall use of the proceeds, the progress of green projects, expected or actual environmental impact, etc., and detailed analysis and presentation of the disclosed content. Relevant working papers and materials should be kept for at least two years after the maturity of the bond.

2.4.2 Issuers are encouraged to disclose the use of Green Bond proceeds on a half-yearly or quarterly basis. The half-yearly or quarterly report may focus on proceeds during the reporting period, and briefly analyze the balance and quantity of projects financed as of the end of the period.

2.4.3 Issuers are encouraged to regularly disclose to the market the external review reports during the life of the Green Bonds issued by third-party evaluation and certification agencies, and implement continuous follow-up verification of the progress of green projects financed by Green Bonds and their actual or expected environmental impact.

3. Scope of application and interpretation

3.1 The Principles apply to Green Bonds issued in China, and the issuer should independently assume the corresponding responsibilities for the bonds issued and fulfill relevant commitments.

3.2 The Principles are interpreted by the Green Bond Standards Committee.

Appendix:

Types of Green Bonds

Green Bonds include the following types. Other types of Green Bonds may emerge according to market development and changes. They will be included in each update of the Principles.

1. Standard Green Use of Proceeds Bond

Marketable securities that meet the requirements of the Principles and are exclusively used to support green projects that meet the prescribed conditions, and are issued in accordance with legal procedures and repay principal and interest as agreed. Ordinary Green Bonds also include two sub-types:

(1) Blue Bond

In line with the requirements of these Principles, the proceeds are invested specifically to finance projects related to marine protection and sustainable use of marine resources to support sustainable marine economic activities and promote the sustainable use of marine resources.

(2) Carbon-Neutral Bond

In line with the requirements of these Principles, the proceeds are specifically used for green projects with carbon emissions reduction impact. These instruments serve to guide the flow of funds towards green and low-carbon emissions economic activities, contributing to reaching the goal of carbon neutrality.

2. Carbon Yield Green bond (Green Bond related to environmental rights)

Securities that meet the requirements of the Principles, and the proceeds are invested in green projects that meet the prescribed conditions. The bond terms are linked to various resources and environmental rights such as water rights, pollution rights, and carbon emission rights. For example, the bond coupon is a fixed interest rate plus a floating component, and the floating component is linked to the relevant income of the invested carbon assets.

3. Green Project Revenue Bond

Securities that meet the requirements of the Principles and the proceeds are used for the construction of green projects. The operating cash flow generated by the green projects is the main source of debt repayment.

4. Green Asset-Backed Securities

Structured financial tools that meet the requirements of the Principles and the proceeds are used for green projects, or the cash flow generated by the green projects.