



SY Holdings Group Limited

Stock Code: 6069.HK

Social Financing Framework

August 2022

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1. Company Overview

SY Holdings Group Limited (stock code: 6069.HK) (“SY”, the “Company”, “Group”) is a leading supply chain technology platform providing data-driven efficient and inclusive financing solutions for companies across the Asia-Pacific. The company 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. Notable institutional investors in the company include China Taiping Insurance, Olympus Capital, Temasek Holdings and Wuxi Communications Industry Group.

SY leverages its technology platform to offer a range of flexible supply chain financing solutions including accounts receivable (“AR”)-based lending as well as loan guarantee services to meet the vast financing needs of underserved small, medium, and micro enterprises (“SMEs”) in the Asia Pacific region.

Through its technology platform, the Group analyses and reviews multidimensional data to validate the creditworthiness of the underlying transactions relating to the supply chain financing, the collection of AR on behalf of customers, including periodic customer reporting relating to their supply chain financing.

The Group’s proprietary fintech platform, “SY Cloud Platform” incorporates a comprehensive suite of technologies such as electronic signatures, optical character recognition (“OCR”), natural language processing (“NLP”), big data analytics, video authentication and facial recognition, to automate and facilitate the Group’s risk management system, as well as to ensure a seamless customer experience for online application and the approval process.

By leveraging on its industrial insights and position within the ecosystem, SY delivers reliable, tailored, and comprehensive supply chain solutions to its customers, especially to underserved SMEs and projects that serve the public interest. This initiative is a crucial factor for sustainable development and the overall supply chain ecosystem.

SY’s technology platform has processed a cumulative total of over RMB130 billion supply chain assets, providing flexible supply chain financing solutions for over 10,000 SMEs¹.

2. SY’s ESG & Sustainability Objectives

Background

The impact of the COVID-19 pandemic has brought heightened complexities around global and local supply chains, resulting in the increasing importance of industrial digitalization, convenient and efficient supply chain financial services. SY’s ESG and sustainability objectives are designed to be aligned with the government’s push for technological innovation and support for SMEs, which ultimately ensure the stability of supply chains, equitable healthcare for all and the critical functioning of the real economy.

In terms of supporting SMEs, SY leverages its platform and technology to provide differentiated digital financing solutions for companies who face difficulties in gaining

¹ As at 31 December 2021

access to capital. The Group also combines its industry domain knowledge and technology to assist companies in the area of industrial digitalization, upgrading their infrastructure, increasing efficiency and cohesiveness, thereby ensuring business continuity and stability for SMEs within the supply chain ecosystem.

ESG Management

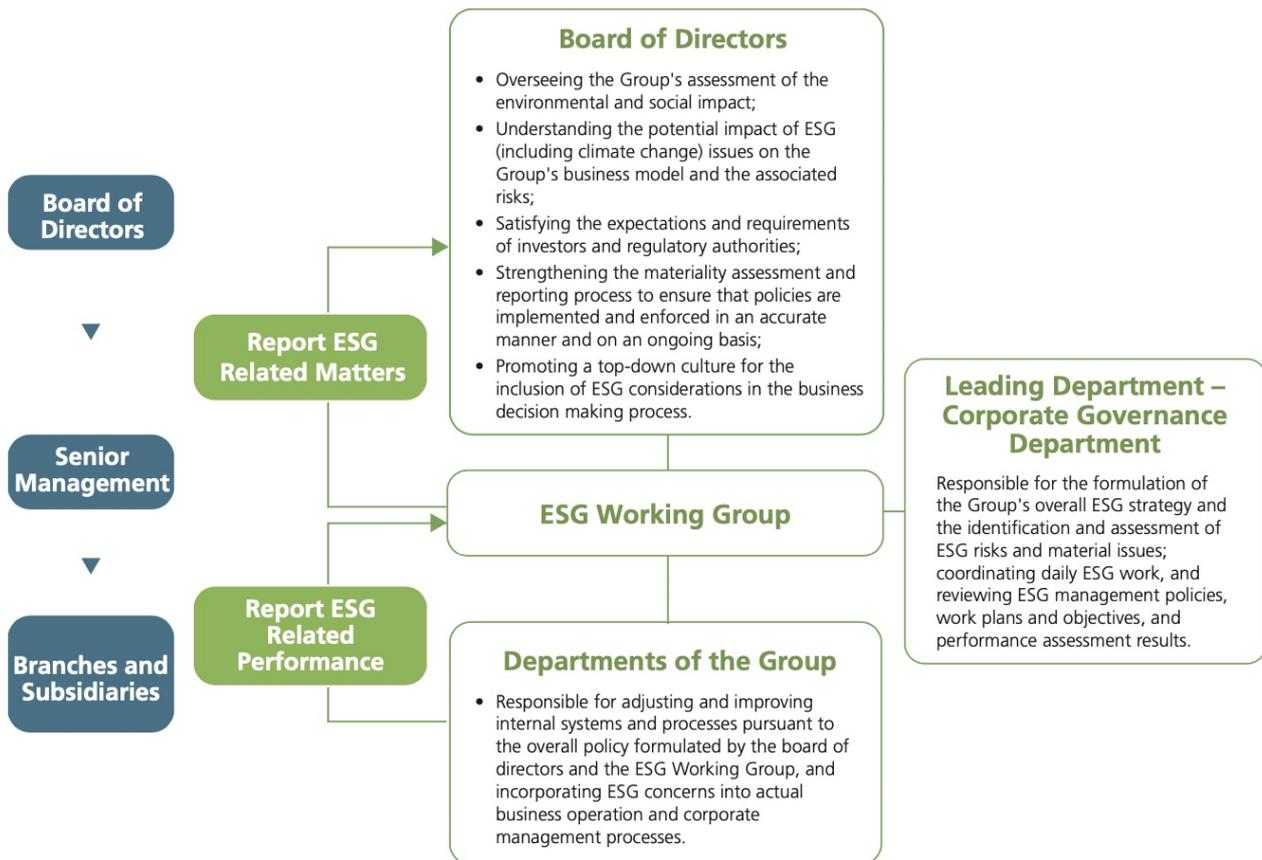
The Group believes that a healthy environmental, social and governance (“ESG”) performance has a decisive impact on the Company’s future sustainable development, the perpetuation of its business and the creation of long-term value for shareholders. Under the ESG management philosophy of “making supply chain finance more efficient and inclusive”, in addition to achieving solid financial performance, the Group pays close attention to improving ESG management standards and performance, continuously improves the management mechanism and integrates it into the long-term development strategy of the Company.

The Board of Directors of the Company assumes ultimate responsibility for ESG work, oversees the implementation of ESG work in a comprehensive manner, evaluates the materiality of ESG issues based on the external social and economic macro environment and the Company’s development strategy, discusses and identifies the risks and opportunities of the Company in environmental, social and corporate governance, and manages and enhances material issues as an annual strategic task for sustainable development. This report has also been reviewed and published by the board of directors.

To promote the steady improvement of ESG management, the Group has formulated a two-year (2020-2021) ESG management work plan, which set the current ESG management objective of “*establishing a sound ESG management system and strengthening the alignment of business segments with sustainable development*”. Based on meeting the requirements of the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange, the Group focuses on ESG management enhancement and ESG information disclosure to promote the top down ESG management upgrade within the Group.

In terms of management, we have further rationalized the Group’s existing ESG management mechanism and process, and deployed ESG organizational structure and working mechanism in the Board of Directors and each functional department to form a regular management mechanism with clear responsibilities and further strengthen the alignment of business segments with sustainable development.

In terms of information disclosure, in accordance with relevant compliance requirements, we have further improved our ESG information and indicator system based on the characteristics of the industry we operate in, thereby enabling the systematic collection of ESG information and continuous improvement of professional capability of ESG management.



3. Social Financing Framework

As part of its continued commitment to sustainability, the Group established the Social Financing Framework (the “Framework”) to guide the future issuance of its social bonds (“Social Bonds”) and social loans (“Social Loans”). As part of its commitment to sustainability and social impact, SY has developed this Framework in accordance with the International Capital Markets Association (“ICMA”) Social Bond Principles April 2021 and the Loan Market Association (“LMA”) Social Loan Principles (“SLPs”)² April 2021 and their four key pillars:

Under this Framework, SY and its subsidiaries can issue Social Bonds and/or Social Loans for general social purposes to an amount commensurate with the net proceeds which will be allocated to projects within one or more of the Eligible Project categories under this Framework.

3.1. Use of proceeds

The net proceeds of the Social Bonds or Social Loans will be used finance new or existing projects³ from the Eligible Project categories as defined below (the “Eligible Social Projects”). The Eligible Social Projects are expected to be located throughout the People’s Republic of China.

² https://www.lma.eu.com/application/files/2016/4623/8946/SLP_Guidance.pdf

³ Includes account receivables assets financed by the Group

The Group plans to fully allocate each Social Bond or Social Loan that meet at least one of the categories outlined below:

Category	Eligibility Criteria	Social Objective
<p>SME Lending Improving access to capital and facilitating integration into supply chains</p>	<p>Loans to SMEs that are otherwise unable to gain easy and affordable access to capital. Through offering flexible financing solutions, SY bridges the credit gap faced by these SMEs, enabling greater visibility of cash flows and higher levels of productivity.</p> <p>By leveraging technology, SY not only allows SMEs to obtain financing digitally and online, but also enables the Group to tailor these loans accordingly to meet the needs of SMEs, thereby facilitating their integration into supply chains.</p> <p>SY also encourages technology development and digital upgrading, including research and development, ensuring the sustainable growth of SMEs in the domestic supply chain ecosystem, which is in line with the government's social-economic development goals.</p> <p>Target populations:</p> <ul style="list-style-type: none"> • SMEs in line with PRC standards⁴ 	<p>Enabling access to responsible and inclusive financial services for underserved companies and SMEs.</p> <p>Reducing regional inequalities in relation to access to capital.</p> <p>Promoting job creation, decent work and economic growth.</p>
<p>SME Lending Providing support amidst natural and health disasters</p>	<p>Loans to support SMEs that are affected / disrupted by any natural/health disaster such as pandemic, earthquakes, floods, droughts, etc.</p> <p>Loans used towards improving connectivity and digitalization in China including the construction and development of infrastructure and utilities such as roads, bridges, hospitals, schools and other amenities contributing to the accessibility by the general public.</p> <p>Target populations:</p> <ul style="list-style-type: none"> • SMEs in line with PRC standards⁵ 	<p>Preserving and generating employment in the concerned area.</p> <p>Eliminating and overcoming connectivity challenges in select areas.</p> <p>Promoting the development of sustainable cities and communities.</p>
<p>Access to essential services Healthcare & medical</p>	<p>The onset of the COVID-19 pandemic has created a burden on the overall healthcare capacity, inventory and infrastructure in China. Initiatives undertaken by SY under this category ensure a stable supply of essential medical consumables to mitigate any shocks to the public healthcare system.</p> <p>Loans dedicated to the development and provision of medical care and health services as part of ensuring adequate medical supplies and stable functioning of healthcare systems for the general public which would otherwise be critically disrupted due to a pandemic or other unprecedented events. These may include one or more of the following:</p>	<p>Ensuring the availability and reliability of quality medical care and supplies.</p> <p>Reducing social health inequalities across regions.</p> <p>Improving overall population health.</p>

⁴ http://www.gov.cn/zwgk/2011-07/04/content_1898747.htm

⁵ http://www.gov.cn/zwgk/2011-07/04/content_1898747.htm

Category	Eligibility Criteria	Social Objective
	<ul style="list-style-type: none"> • Construction/renovation/extension of multi-disciplinary healthcare centres • Purchase of healthcare consumables • Equipment and infrastructure used in the provision of medical care and disease control services <p>Targeted populations:</p> <ul style="list-style-type: none"> • Hospitals and/or clinics for the general public • Healthcare companies engaged in the manufacture, procurement and delivery of basic medical supplies and consumables 	

3.2. **Process for project evaluation & selection**

SY commits to ensure that all the Eligible Social Projects follow the sustainability policies the Group has adopted, including other relevant standards that are not subject to any major controversy.

The process for evaluation and selection will be jointly coordinated by both SY's Corporate Governance, Risk Management, Strategy and Treasury departments, as well as other relevant departments as and when required. The general procedure for this is outlined below:

- The both the Group's Industrial Financing and Treasury departments will identify and shortlist the potential assets and/or projects which could be considered for inclusion within one or more of the categories outlined above.
- Information relating to the assets and/or projects are retrieved and processed through SY's online platform during the loan application phase.
- SY adheres strictly to its internal risk management and customer acceptance policies as part of the onboarding process, including the periodic maintenance of a whitelist of customers. Any potential customer that is found to be engaged in any criminal, socially or environmentally detrimental activity will be placed under the Group's blacklist.
- The Treasury and Corporate Governance departments will also ensure that the assets and/or projects to be financed fulfil the Eligibility Criteria as set out in this framework.

SY has also established an ESG Working Group (the "Working Group"), which will be responsible for the ultimate evaluation and selection of projects that will qualify as Eligible Social Projects, as defined by this Framework. The Working Group comprises Board members (where relevant), the Group's senior management, including various departments within the Company, and will be led by SY's Corporate Governance Department.

To evaluate the eligibility of the projects, the Committee will:

- Review and ensure the use of proceeds from the Social Bonds and/or Social Loan fulfil one or more of the Eligibility Criteria as set out above

- Ensure each Social Bond and Social Loan is aligned with the ICMA's Social Bond Principles and Social Loan Principles 2021
- Oversee implementation to ensure that the Social Bond and/or Social Loan proceeds are used in accordance with the criteria defined in this Framework document
- Monitor the existing Eligible Social Projects to ensure that they maintain the criteria defined in this Framework

In the event (i) a loan does not meet the Eligibility Criteria; (ii) there are any early loan repayments; or (iii) the loan is repaid before maturity; the Group will undertake to replace such loans with new loans selected based on the Eligibility Criteria set out above. Under this Framework, the Group has also defined an exclusionary list prohibiting any activities involving child labour, the gambling industry, adult entertainment activities, controversial weapons manufacturing, fossil fuel-based operation and transportation of fossil fuel, palm oil production.

SY commits to updating the Social Financing Framework with the goal of adhering with the most up-to-date and best market practices.

3.3. *Management of proceeds*

SY's Finance Department will track the allocation of net proceeds for each Social Bond and/or Social Loan to the Eligible Social Projects as defined in this Framework. Any unallocated net proceeds will be invested in accordance with SY's cash investment policy.

The Group, on a best-efforts basis, will allocate all the Social Bond and/or Social Loan proceeds to the Eligible Projects within 12 months of issuance.

3.4. *Reporting*

Allocation Reporting

SY will report the allocation of the net proceeds for each Social Bond and/or Social Loan annually until it has been fully allocated. Details of the use of proceeds will be published on the Company's website or reported in its annual ESG Report within a year of issuance.

To the extent practicable, the details of the report will include:

- A summary of the Eligible Social Projects funded
- The total amount of proceeds allocated
- The balance of any unallocated proceeds

Impact Reporting

SY will report the social impacts arising from the Eligible Social Projects funded where feasible using key performance metrics such as:

- Total SMEs funded, total loans disbursed to SMEs, quantity of medical consumables funded, length of roads and/or bridges constructed, etc and/or other relevant metrics where applicable.

4. Alignment of Use of Proceeds with the UN SDGs

SY's Eligible Social Projects contribute to the achievement of the following UN Sustainable Development Goals:

<p>SME Lending</p>	  	<ul style="list-style-type: none"> • 8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries • 8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors • 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 • 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all • 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all • 9.2 Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries • 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 • 9.7 Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities • 9.8 Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020 • 10.9 Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes
<p>Access to Essential Services</p>	  	<ul style="list-style-type: none"> • 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care

		<p>services and access to safe, effective, quality and affordable essential medicines and vaccines for all</p> <ul style="list-style-type: none"> • 3.13 Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks • 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all • 9.8 Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020 • 11.8 Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning • 11.10 Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials
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Further disclosures on the Group’s ESG and sustainability efforts can be found at: <https://www.syholdings.com>

5. External review

SY’s Social Financing Framework will be reviewed by an independent and recognized second party opinion provider. This opinion will also be published on SY’s website and/or the opinion provider’s website in line with the issuance of the bond / loan.

Upon full allocation, an independent party may be appointed to verify that the net proceeds have been allocated to the Eligible Social Projects defined in this Framework and will be published on SY’s website.

6. References

Social Loan Principles, Loan Syndications and Trading Association (LSTA)

<https://www.lsta.org/content/social-loan-principles-slp/>

https://www.lma.eu.com/application/files/2016/4623/8946/SLP_Guidance.pdf

Social Bond Principles, ICMA Group

<https://www.icmagroup.org/sustainable-finance/sustainable-bonds-database/#Templatesforissuers>

The 17 sustainable development goals (SDGs), United Nations

<https://www.un.org/development/desa/disabilities/envision2030.html>

Bridging the infrastructure gap to achieve the SDGs – Wu Hongbo

<https://www.un.org/en/desa/bridging-infrastructure-gap-achieve-sdgs>

Official sources that define SMEs in China:

China Government website: http://www.gov.cn/zwgk/2011-07/04/content_1898747.htm

Ministry of Info and technology China:

https://www.miit.gov.cn/jgsj/qyj/gzdt/art/2021/art_9087ea816daf4f7192ac845d1380cfd7.html

National Bureau of Statistics: http://www.stats.gov.cn/tjgz/tzgb/201801/t20180103_1569254.html

SY Holdings ESG portal

<https://www.syholdings.com/en/responsibility/>

Tackling Small and Medium-Sized Enterprises (SMEs) Financing in China - ANNALS OF ECONOMICS AND FINANCE 21-1, 209–239 (2020)

<http://aeconf.com/Articles/May2020/aef210110.pdf>