

ASSESSMENT

22 May 2024



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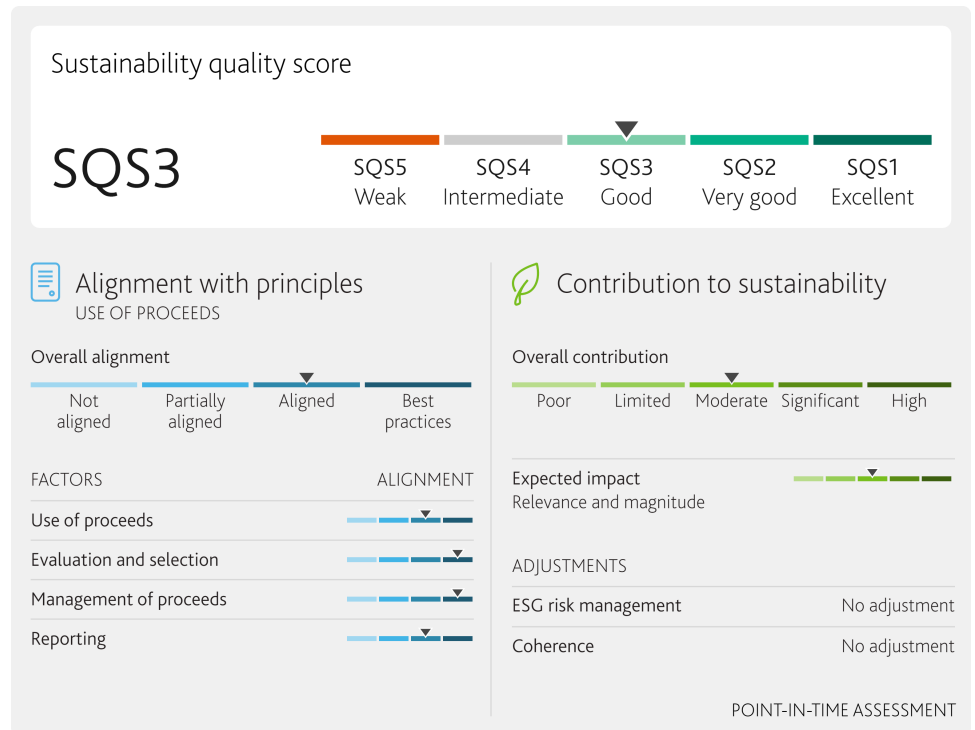
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Micro Connect Group

Second Party Opinion – Social Finance Framework Assigned SQS3 Sustainability Quality Score

Summary

We have assigned an SQS3 sustainability quality score (good) to Micro Connect Group's (Micro Connect) social finance framework dated May 2024. The company has established its use-of-proceeds framework with the aim of financing projects in one eligible social category of employment generation. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Social Bond Principles (SBP) 2023, and the Loan Market Association, the Asia-Pacific Loan Market Association and the Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Social Loan Principles (SLP) 2023. The framework demonstrates a moderate contribution to sustainability.



This Second Party Opinion was originally assigned on a private basis on 8 May 2024 and is being published on 22 May 2024 at the request of the borrower.

Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of MicroConnect's social finance framework, including its alignment with the ICMA's SBP 2023 and the LMA/APLMA/LSTA's SLP 2023. Under its framework, the company plans to finance assets in one eligible social category, employment generation, as outlined in Appendix 2 of this report.

Our assessment is based on the framework dated May 2024, and our opinion reflects our point-in-time assessment ¹ of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](#), published in October 2022.

Issuer profile

Founded in 2021, Micro Connect is an exchange group that specializes in providing financing and access to funding to micro, small and medium enterprises (MSME's) in China operating in food & beverage, retail, services and culture & sports industries with physical store operations. These MSME's can get access to funding by sharing the daily revenue of their physical stores with investors through Micro Connect (Macao) Financial Assets Exchange (MCEX), which is operated by Micro Connect.

MCEX, through its wholly owned subsidiaries in China, first enters into daily revenue contracts (DRCs) with physical stores of MSME's that will obtain funding. In return, the physical stores will distribute daily a specified portion of return over an agreed period, based on the daily revenue generated. Then, MCEX issues back-to-back instruments (daily revenue obligations (DROs)), to international investors. These DROs are instruments that are tradable, registered, and held in custody on MCEX, and represent economic entitlements to their corresponding DRCs.

Strengths

- » Clearly defined social objectives in line with the United Nations' (UN) Sustainable Development Goals
- » Clearly defined and transparent project evaluation and selection process

Challenges

- » The social category is broadly defined;
- » Social benefits and impact indicators do not have a very strong and direct relevance to the eligible category of employment generation

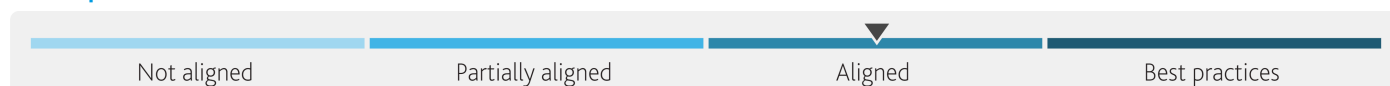
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Alignment with principles

Micro Connect's social finance framework is aligned with the four core components of the ICMA's SBP 2023, and the LMA/APLMA/LSTA's SLP 2023.

- | | | |
|--|--|--|
| <input type="radio"/> Green Bond Principles (GBP) | <input checked="" type="checkbox"/> Social Bond Principles (SBP) | <input type="radio"/> Green Loan Principles (GLP) |
| <input checked="" type="checkbox"/> Social Loan Principles (SLP) | <input type="radio"/> Sustainability-Linked Bond Principles (SLBP) | <input type="radio"/> Sustainability Linked Loan Principles (SLLP) |

Use of proceeds



Clarity of the eligible categories – ALIGNED

Micro Connect has clearly communicated the nature of the expenditures, which mainly include DROs. The eligibility criteria for the project category is clearly defined, although the criteria for certain social subcategories are defined broadly. The company identified the location of eligible projects to be in Mainland China.

Clarity of the social objectives – BEST PRACTICES

The company has clearly outlined the social objectives associated with the social category of financial inclusion and employment generation. This eligible category is relevant to the social objectives to which it aims to contribute. The company has referenced the United Nation's (UN) Sustainable Development Goals (SDGs) in articulating the objectives of the eligible category. Also, the objectives are coherent with these recognized international standards.

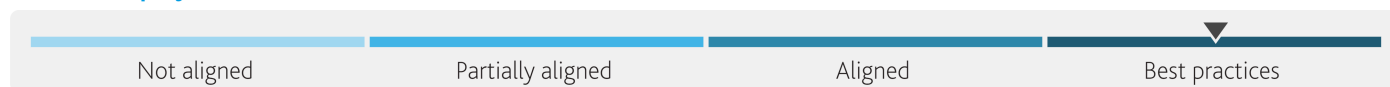
Clarity of the expected benefits – ALIGNED

The company has identified clear expected social benefits for the eligible category with reference to SDG targets, but some of these benefits do not have a very strong and direct relevance to the social objective of employment generation. The benefits are measurable, and the company will report on these quantitative benefits in its annual reporting. The company has committed to a maximum look-back period of two years for refinanced projects.

Best practices identified

- » Objectives set are defined, relevant and coherent
- » Benefits are measurable and quantified
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection



Transparency and quality of process for defining eligible projects – BEST PRACTICES

The company's decision-making process for the selection and evaluation of projects is structured and outlined in its framework. A sustainability project working group (the Working Group) will (1) review all the proposed social assets and evaluate their eligibility with reference to the criteria set in Micro Connect's social financing framework, (2) ensure that eligible projects also adhere to the mission and vision applicable to Micro Connect, and (3) complies with all local laws and regulations. The Working Group is comprised of representatives from structured finance, legal and compliance, risk department and finance department. The company will document the process of evaluation, selection and monitoring, to ensure traceability.

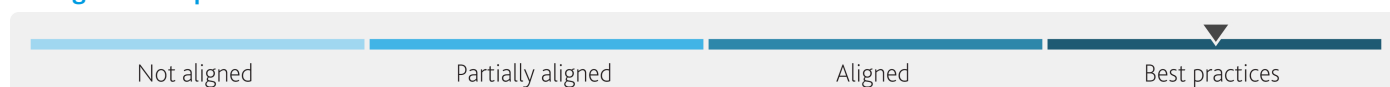
Environmental and social risk mitigation process – BEST PRACTICES

Micro Connect has established an internal risk management mechanism to ensure that environmental and social risks are monitored, identified, and managed appropriately. There are monitoring tools in place to ensure the eligibility of social projects remains valid and follow up measures will be in place if the project is no longer eligible.

Best practices identified

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Presence of corrective measures to address environmental and social risks across projects
- » ESG controversies are monitored

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

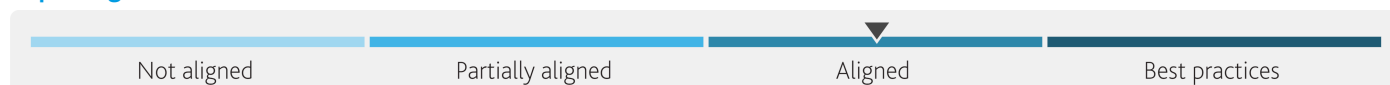
The company has defined a clear process for the management and allocation of proceeds in its publicly available framework. Net proceeds from any sustainable finance transactions (SFTs) issued under the framework will be managed by the finance team and deposited in the company's general funding accounts and earmarked for allocation to eligible projects, which will be tracked through a register for each SFT. The company will update the balance of funds to match allocation to eligible projects. The company intends to fully allocate net proceeds of SFTs within 2 years from the date of issuance. Micro Connect also commits not to invest in fossil fuel activities.

Management of unallocated proceeds – BEST PRACTICES

The unallocated proceeds will be held in short-term deposits. Micro Connect will disclose to investors the types of temporary placement they use for unallocated proceeds. In the event that a project becomes ineligible, the company will replace that project with new eligible social projects as soon as reasonably practicable. Micro Connect also commits not to invest in fossil fuel activities.

Best practices identified

- » Short allocation period, for example typically less than 24 months
- » Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- » Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting**Transparency of reporting – ALIGNED**

The company will report on the use of proceeds and the E&S impacts of SFTs issued under its framework at least annually. Reporting will be conducted until debt maturity, and the company will provide timely updates, should there be any significant changes to the financed projects including significant developments, issues or controversies.

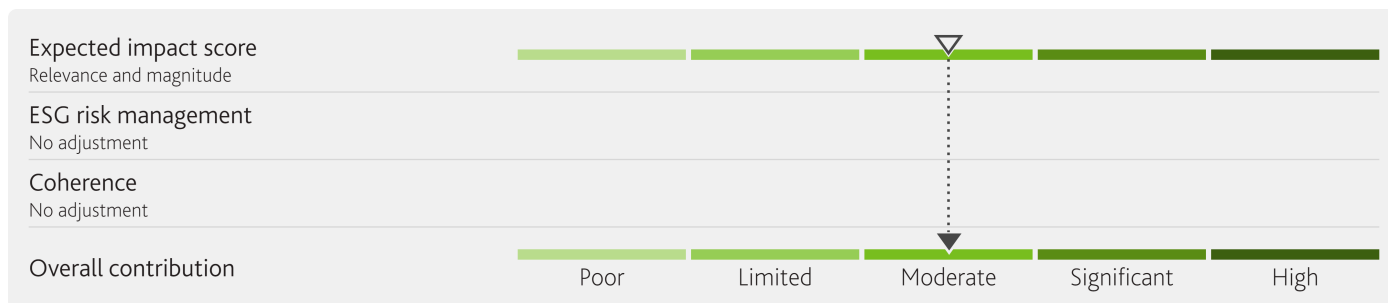
The company has identified social reporting indicators for the eligible category and has clearly disclosed these indicators in its framework, but these indicators do not have strong and direct relevance to the eligible category of employment generation. Reporting will cover the amount of proceeds allocated, amount of unallocated proceeds and material developments and issues related to the projects or assets. The company has committed to an independent verification of its proceeds allocation and the impact assessment of the environmental and social benefits.

Best practices identified

- » Reporting will occur until debt maturity
- » Reporting covers material developments and issues related to the projects or assets
- » Reporting on allocation of proceeds and benefits
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum, if any
- » Independent audit of the tracking and allocation of funds until debt maturity
- » Independent impact assessment on environmental benefits by a qualified third-party reviewer until debt maturity

Contribution to sustainability

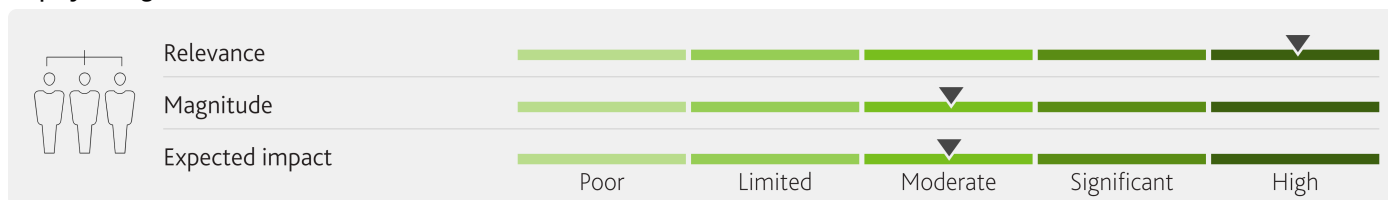
The social financing framework demonstrates a moderate contribution to sustainability.



Expected impact

The expected impact of the eligible projects on social objectives is considered moderate. The framework includes only one eligible social category, which will receive all the SFT proceeds, based on which we assigned 100% weight to this sole category. A detailed assessment of the contribution of the eligible project category to sustainability is provided below:

Employment generation



Providing financial support to MSMEs is considered highly relevant to the Chinese economy and stability of employment in China, which is also aligned with the national strategy to support the development of MSMEs. In China, MSMEs account for 50% of the national tax revenue, generate more than 60% of GDP, account for more than 70% of technological innovation and create 80% of urban employment².

The category will contribute moderate magnitude to sustainability. This financing can provide an unsecured financing channel for MSME's with a potentially longer tenor. MSME's can also share their business risk with investors, which helps cushion the downside risk in adverse market conditions. Besides, if the MSME's terminate the contract within the contract period due to actual operating reasons, the investor does not have the right to demand repayment of the initial invested capital from the MSME.

While this alternative financing provides additional funding options to MSMEs, the eligible projects may not address the most vulnerable population given this is a market-driven arrangement on top of the listing requirement in MCEX. As such, micro enterprises and weak-performing physical stores of the MSME's will likely face difficulties to tap this market. Besides, there is limited visibility on MSMEs' financing cost given it also depends on operating track record and other commercial terms agreed upon between the MSME and investors. While this is not an apple-to-apple comparison, as China's onshore financial institutions extend more inclusive loans to small and micro enterprises at reduced interest cost³, MSME's now can have more fund-raising options, some of which could be at an attractive cost from the government initiative on inclusive financing.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. Micro Connect has an established risk management framework in operating MCEX with a high focus on the ESG risk of the MSME's, including some monitoring tools that can keep track of the material development on the physical stores of the MSME's. The company has also worked with an external party to develop an ESG evaluation framework on the MSME's.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. Through SFT issuances under this framework, Micro Connect is at the forefront of providing a new source of funding to MSME's. The eligible category is also in line with the company's goal to support 10 million quality, socially inclusive, and environmentally friendly job opportunities for the next decade.

Appendix 1 - Mapping eligible categories to the UN's SDGs

The social category to be financed in Micro Connect's social financing framework is likely to contribute to two of the UN's SDGs, namely:

| UN SDG 17 Goals | Eligible Category | SDG Targets |
|--|------------------------------|---|
| GOAL 8: Decent Work and Economic Growth | <i>Employment Generation</i> | 8.3: Promote policies that support productivity, job creation, entrepreneurship, innovation, and encourage the growth of SMEs |
| GOAL 9: Industry, Innovation and Infrastructure | <i>Employment Generation</i> | 9.3: Increase SMEs' access to finance, and their integration into value chains and markets, particularly in emerging markets |

The mapping of the UN's SDGs in this SPO takes into consideration the eligible project category and associated social objectives/benefits documented in Micro Connect's sustainable finance framework, and resources and guidelines from public institutions, such as the ICMA's SDG Mapping Guidance and the UN's SDG targets and indicators.

Appendix 2- Summary of the eligible category in Micro Connect's framework

| Eligible Category | Description | Sustainability Objectives | Impact Reporting Metrics |
|-----------------------|--|---------------------------|---|
| Employment Generation | Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic inequality, including providing listing financing services on the Micro Connect (Macao) Financial Assets Exchange ("MCEX") to help SMEs establish communication with international capital to achieve their financing goals | Employment Generation | <ul style="list-style-type: none"> • Number of SMEs/Micro businesses financed • Total amount of finance provided to the target population during the reporting period |

Moody's related publications

Second Party Opinion analytical framework:

» [Framework to Provide Second Party Opinions on Sustainable Debt](#), October 2022

Topic page:

» [ESG Credit and Sustainable Finance](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

¹ Point-in-time assessment is applicable only on date of assignment or update.

² [Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard](#), OECD, March 2024

³ [China extends more inclusive loans to small businesses in 2023](#), 26 January 2024

Moody's assigns SPOs in alignment with the main tenets of the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews and the LSTA/LMA/APLMA Guidance for Green, Social and Sustainability-Linked Loans External Reviews, as applicable; Moody's practices may however diverge in some respects from the practices recommended in those documents. Moody's approach to assigning SPOs is described in its Assessment Framework, and is subject to the ethical and professional principles set forth in the Moody's Investors Service Code of Professional Conduct.

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