



Overview of the Environmental and Social Management System of China Education Group Holdings Limited

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1. BACKGROUND

China Education Group Holdings Limited (CEG) is a leading PRC vocational education group with footprints in China, Australia, and the United Kingdom (UK).

CEG intends to secure a corporate loan from the Asian Infrastructure Investment Bank (AIIB) to finance Phase III & IV construction and operation of the Guangzhou Colleague of Applied Science & Technology (GCAST) Zhaoqing Campus, a subsidiary school of CEG.

As part of the pre-loan Environmental and Social (E&S) assessment, the existing environmental and social management system (ESMS) of CEG was reviewed against the laws and regulations in China, as well as AIIB's Environmental and Social Policy (ESP) and relevant Environmental and Social Standards (ESSs). The objective of the ESMS review is to ensure CEG's ESMS comply with the applicable reference framework.

2. INTRODUCTION OF CEG'S ESMS

CEG's ESMS was initially established in 2021, as required by the Credit Guarantee & Investment Facility (CGIF) which guaranteed CEG's Dim Sum bond issuance. The ESMS was upgraded in 2024, as required by the AIIB and Asia Development Bank (ADB) which provided a corporate loan to finance CEG's construction of new campus, working capital and refinancing needs.

CEG's ESMS is primarily established based on the following management requirements and standards:

- AIIB's ESP and ESSs.
- ADB's Safeguard and Social Policies.
- CGIF Environmental and Social Safeguard Policies.
- Applicable national environmental and social laws, regulations, and standards, including those related to the environment, occupational health, and community health and safety.
- For specific legal and regulatory requirements, and internationally recognized standards accepted by China.

The corporate ESMS policy implemented by CEG states that the objectives of the ESMS are to 1) fully committed to safeguard the environment; 2) be socially responsible; and 3) maintain a stringent and impartial corporate governance in daily operation including environment, health, safety and social aspects. The corporate ESMS policy aims to provide guidance for E&S management of CEG at corporate level. It also provides a basis for subsidiary school of CEG to establish their respective school-level ESMS.

2.1. Management Structure

CEG's ESMS structure consists of three tiers, as shown in the figure below.

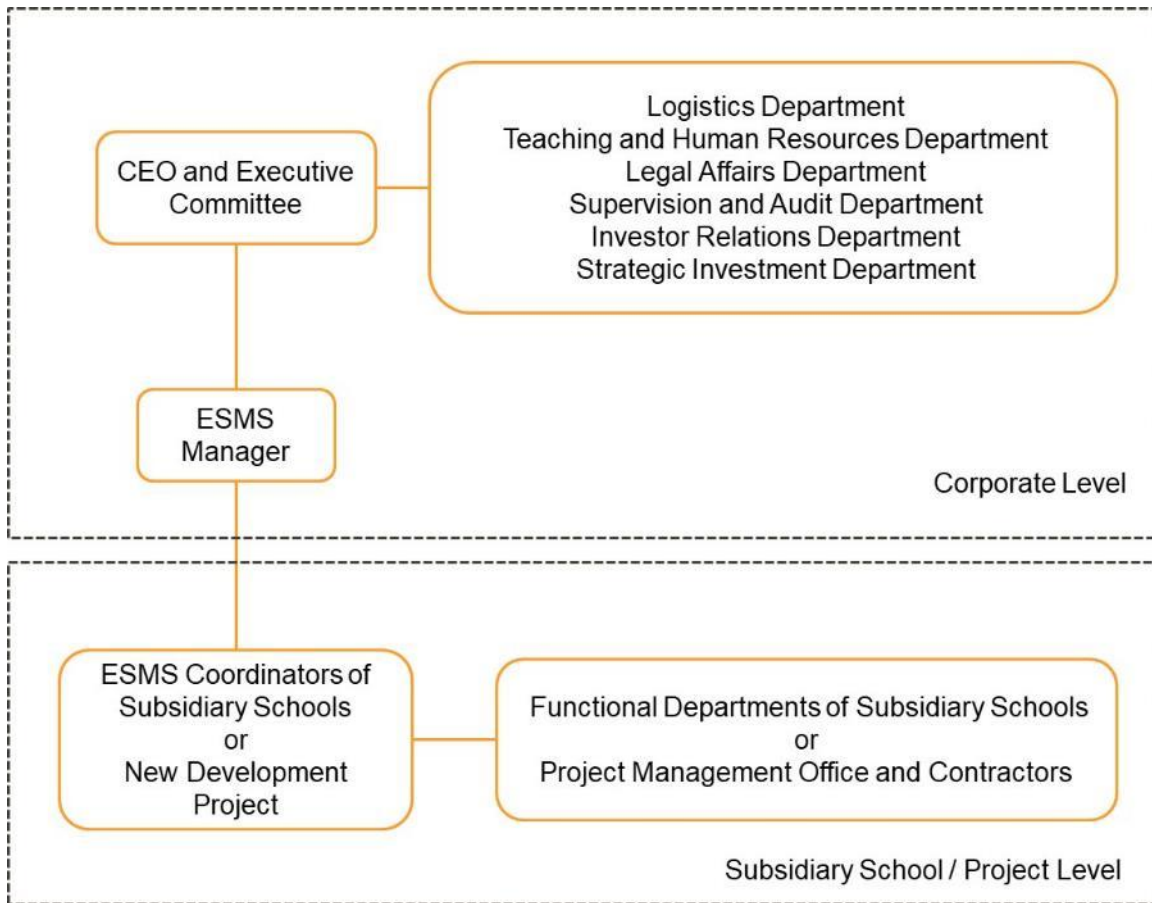


Figure 1 ESMS Structure

At corporate level, the CEO of CEG (Mr. Kai Yu) and the executive committee consisting of the leaders of functional departments of CEG are the highest tier of the ESMS structure. The main responsibilities of the CEO and the executive committee include:

- Support and approve the ESMS and provide support to the ESMS Manager.
- Provide adequate resources to ensure the implementation of the ESMS.
- Develop the E&S development strategies at corporate level.
- Conduct regularly review (at least once a year) of the corporate ESMS performance, and ensure regular updates to the ESMS.

The detailed ESMS responsibilities for each functional department at corporate level are summarized as follows:

Logistics Department

- Health, safety and security management.
- Centralized procurement management.
- Chemical safety management.
- Waste management.
- Food safety management.
- Land use management.
- Emergency response.

Teaching and Human Resources Department

- Internal grievance redress mechanism.

Legal Affairs Department

- ESMS related coordination works.
- Environment, social and governance (ESG) related coordination works.
- Regulatory compliance related works.

Supervision and Audit Department

- Audit and inspection.

Investor Relations Department

- Stakeholder engagement.

Strategic Investment Department

- External grievance redress mechanism.
- E&S management of new projects.

The second tier of the ESMS is the dedicated ESMS Manager (Mr. David Xie). The main responsibilities of the ESMS Manager include:

- Ensure ESMS implementation resources through regular communication (at least once every six months) with senior management and relevant departments of CEG.
- Monitor E&S issues and the implementation of ESMS at both corporate and subsidiary level.

- Ensure that relevant audits and monitoring are carried out and corresponding reports are prepared in accordance with ESMS requirements.
- Regularly update the ESMS to ensure that the ESMS matches the business of CEG.

The third tier of ESMS structure consists of the dedicated ESMS coordinators for subsidiary schools or the new development project. The responsibilities of the ESMS Coordinators mainly include:

- Monitor the E&S issues and the implementation of ESMS at subsidiary school or project level, including developing a school/project-specific ESMS based on applicable local rules and the actual situation of the schools/projects.
- Identify the resources required for ESMS implementation.
- Ensure that the performance of schools/projects is in compliance with E&S requirements.
- Conduct internal E&S performance and ESMS implementation audits at school/project level.
- Ensure that relevant audits and monitoring are carried out and corresponding reports are prepared in accordance with ESMS requirements.
- Provide E&S monitoring information to the ESMS Manager on a regular basis (at least once every six months).

2.2. Procedures

A series of management procedures have been developed by CEG to support the implementation of ESMS, which include:

- Environmental and social due diligence procedure for new project.
- Environmental and social risk management procedure for new project.
- Environmental monitoring procedure including a general pollutant management plan.
- Waste management procedure.
- Safety and security management procedure.
- Chemical safety management procedure.
- Food safety management procedure.
- Emergency response plan.
- Stakeholder participation plan.
- Community health and safety management plan.
- Internal employee grievance procedure.
- Land use management procedures.

- Standardized process for investment and financing projects.
- Procurement management implementation rules.
- Management measures for ethnic minorities.
- Labor management and audit procedure.
- Gender management procedure.
- Management measures on negative behaviors.
- Management measures on sexual harassment prevention and control.
- ESMS awareness-raising training matrix.
- Enhanced ESMS Professional training plan.

3. COMPONENTS OF CEG's ESMS

3.1. Screening and Categorization of New Project

A screening and categorization mechanism for new project has been established and included in the existing ESMS. At the initial stage of identifying a new project, the proposed project is required to be screened against the following criteria:

- Whether the proposed project is within a biodiversity protection zone such as a nature reserve, drinking water source protection zone, important wetland, natural forest, key protected wildlife habitat.
- Whether the proposed project involves land acquisition and involuntary resettlement. If the proposed project involves land acquisition and resettlement, whether the number of affected people is 200 or more, and the loss of production or income-generating assets of 10% or more.
- Whether the proposed project involves indigenous peoples. If the proposed project involves indigenous people, whether the project severely impacts the traditional rights of Indigenous peoples to use and access land and natural resources; the socio-economic conditions of Indigenous peoples; integrity of Indigenous culture and communities; or indigenous peoples' health, education, lifestyle, and safety.

After the screening, the proposed project is assigned to one of the following three categories based on its type, location, scale, and sensitivity and the magnitude of its potential environmental and social impacts.

Environmental Risk Category

- Category A: If the proposed project may cause significant adverse environmental impacts that are irreversible, diverse, or unprecedented. And these impacts may affect an area larger than the sites or facilities subject to physical works. The proposed project is a Category A project. An

environmental impact assessment (EIA) report including environment management plan is required for Category A project.

- Category B: If the proposed project may cause site-specific adverse environmental impacts, few if any of them are irreversible, and in most cases mitigation measures can be designed more readily than for Category A. The proposed project is classified as Category B project. An initial environment examination (IEE) or equivalent process (such as an EIA, if required by local regulations) is required for Category B project.
- Category C: If the proposed project has minimal or no adverse environmental impacts. The proposed project is classified as Category C project. No EIA is required for Category C project.

Land Acquisition and Resettlement Risk Category

- Category A: If the number of affected people is 200 or more, or 200 or more affected people lose 10% or more of their productive or income-generating assets, the proposed project is classified as Category A project. Projects with Category A resettlement impacts are excluded from CGIF investment scope.
- Category B: If involuntary resettlement with limited impacts may be caused by the proposed project, the proposed project is classified as Category B project. A resettlement plan or livelihood rehabilitation plan including social impact assessment may be required for Category B project.
- Category C: If no involuntary resettlement is caused by the proposed project, the proposed project is classified as Category C project. No further action is required for Category C project.

Indigenous Peoples Risk Category

- Category A: If the proposed project may cause significant impacts on Indigenous Peoples, including the impacts on Indigenous Peoples' customary rights of use and access to land and natural resources; socioeconomic status; cultural and communal integrity; health, education, livelihood systems, and social security status; or indigenous knowledge, the proposed project is a Category A project, and an Indigenous People Plan is required for it.
- Category B: If the proposed project may cause limited impacts on Indigenous Peoples, the proposed project is a Category B project, and an Indigenous People Plan is required for it.
- Category C: If the proposed project has no impact on Indigenous Peoples, the proposed project is a Category C project, and no further action is required for it.

3.2. Environmental and Social Due Diligence for New Project

According to the ESMS, an environmental and social due diligence is required for Category A and Category B project to understand the environmental and social risks of new projects and the integrity and effectiveness of the environmental and social management system for future school construction and operation. For Category A projects, external experts need to be invited to conduct environmental and social due diligence. For Category B projects, the ESMS manager and project manager are responsible for the environmental and social due diligence, external experts can also be invited if necessary. There is no requirement for an E&S due diligence for Category C projects in the ESMS.

3.3. Pollution Prevention and Abatement

According to the ESMS, a designated project management team shall be established for each project during the construction stage. At least one qualified individual of the project management team should be assigned for the environmental and social management. In addition, third-party supervisor may be engaged in overseeing environmental and social management of construction vendor. A project-specific comprehensive construction plan including mitigation strategies to potential environmental issues, such as dust, noise, wastewater, solid waste, energy efficiency, should be developed by the construction vendor and reviewed by the project management team and third-party supervisor. The project management team is responsible for supervise the implementation of environmental impact mitigation measures.

At the operation stage, each subsidiary school needs to develop and implement pollution prevention and abatement programs that covers all applicable potential environmental issues. The ESMS Coordinator should supervise the implementation of pollution prevention and abatement programs.

3.4. Occupational Health and Safety

For occupational health and safety concerns during the construction stage, CEG's ESMS mandates that the project management team and construction vendors establish mitigation strategies based on relevant clauses in the construction contract, national and local regulations. Only qualified vendors that have health and safety management structure and capacity are allowed to be involved in the construction project. The historical health and safety performance of candidate vendors needs to be considered during the vendor selection process. A project-specific comprehensive construction plan, including health and safety risk assessment and related mitigation plan, is required to be prepared by the construction vendor before starting construction.

For occupational health and safety concerns during the operation stage, CEG has developed health and safety management procedures at corporate level. Each subsidiary school is required to establish its health and safety management system according to the local regulations and CEG's ESMS. The principal of each subsidiary school has overall responsibility for the health and safety management of respective school, according to the ESMS.

3.5. Community Health and Safety

According to the ESMS, the primary community health and safety concerns at construction stage include noise and dust, transportation vehicle safety, and infectious diseases. A project-specific comprehensive construction plan, including community health and safety risk identification and related mitigation measures, is required to be prepared by the construction vendor before starting construction.

During the operation period, the primary community health and safety concerns include traffic safety, campus security and infectious diseases. A community health and safety management plan at corporate level has been developed by CEG, as part of the ESMS. Each subsidiary school is required to establish its community health and safety management plan.

3.6. Resource Conservation and Energy Efficiency

CEG has formulated a series of energy efficiency management systems, including energy conservation and utilization system, energy consumption measurement and analysis system, and high energy-

consuming equipment usage and maintenance system. CEG requires its subsidiary schools to develop and implement respective resource conservation programs to promote the reasonable consumption and conservation of energy and thus to enhance the overall efficiency of energy consumption. The annual consumption of electricity, water, natural gas, gasoline, diesel, liquefied petroleum gas and alcohol-based fuel of each subsidiary school have been recorded and reported to CEG, as part of the preparation of annual environmental, social and governance (ESG) report.

3.7. Biodiversity

According to the CEG's ESMS, whether the proposed project is within a biodiversity protection zone such as a nature reserve, drinking water source protection zone, important wetland, natural forest, key protected wildlife habitat is a key screening criterion during the project initial screening stage. Project located in the biodiversity protection zone is excluded in the investment scope of CEG.

3.8. Physical Cultural Resources

According to the CEG's ESMS, whether the proposed project is within a physical cultural resource protection zone is a key screening criterion during the project initial screening stage. If the presence of physical cultural resource cannot be eliminated, a cultural heritage survey needs to be conducted before starting construction. A cultural heritage protection plan needs to be developed in line with local regulations if cultural heritage is identified.

3.9. Land Acquisition and Resettlement

CEG has established land acquisition and resettlement procedure to manage relevant risks generated by the development of new projects. According to the ESMS, at the subproject identification stage, the project team is required to conduct a rapid assessment of the likely environmental and involuntary resettlement impacts and effects on indigenous peoples of a project. A brief questionnaire is designed to guide the project team to assess the impact of the land acquisition involved in the new project development at the early stage of the project, which includes the information of new project location, the involvement and impact of land acquisition with a clear classification list. For the projects requiring land acquisition and resettlement, a resettlement plan will be developed and implemented in line with relevant regulations.

3.10. Indigenous Peoples / Ethnic Minorities

CEG has established policy and procedure regarding indigenous peoples / ethnic minorities, as part of the ESMS. As described in previous sections, the impact of the project on indigenous peoples / ethnic minorities is evaluated in accordance with the social safeguards screening checklists at the project identification stage. If the screening process indicates that a project will have positive or negative impacts on indigenous peoples / ethnic minorities who can be considered indigenous peoples, CEG shall hire qualified experts to carry out an Environmental and Social Audit (ESA) and prepare an Indigenous People Plan (IPP) in accordance with the result of ESA and ESMS.

3.11. Stakeholder Engagement

Stakeholder engagement mechanism at corporate level, including stakeholder identification and analysis matrix, and stakeholder engagement strategies, has been established as part of the ESMS. The stakeholder are divided into three categories, including key stakeholders, potentially affected stakeholders

and interest-related groups, based on the connection between the stakeholders and CEG. Different engagement strategies are applied for respective kinds of stakeholders. CEG aims to build good relations with the key stakeholders with positive attitude through continuous communication and consultation, including timely information disclosure and responses to their concerns. For potentially affected stakeholders, CEG intends to disclose general information (e.g., regular communications with the public) and respond to direct requests for further information. For interest-related group, CEG regularly monitors the relevant information. Each subsidiary school / project is required to establish respective stakeholder engagement mechanism in accordance with CEG's ESMS.

3.12. Grievance Redress Mechanism

A Grievance Redress Mechanism (GRM) for handling environmental, health and safety (covering both occupational and community issues) and social complaints, including complaint recording, consultation, issue investigation, mitigation action, follow-up, general timeframe for resolution and delegation of responsibilities has been established at corporate level. The GRM consists of internal GRM and external GRM. Each subsidiary school / project is required to establish respective GRM in accordance with CEG's ESMS.

3.13. Labor and Working Conditions

A labor management mechanism covering remuneration, dismissal, recruitment, promotion, share option schemes and share award scheme, working hours and vacations, equal opportunities, diversification, anti-discrimination, labor contract and employee's development has been established at corporate level, based on International Labor Organization (ILO) core labor standards and national laws and regulation. This labor management mechanism applies to all subsidiary schools / projects.

3.14. Gender and Development

A gender equality management procedure has been developed at corporate level, as part of the ESMS. This procedure outlines the gender equality development work that needs to be carried out at different stages of a project, including project planning and design stage, construction stage, and operation stage. This gender equality management procedure applies to all subsidiary schools / projects.

3.15. Training

According to the ESMS, the E&S trainings include professional trainings and awareness-raising trainings. The professional trainings are required for the senior management team involved in ESMS, such as the ESMS Manager and ESMS Coordinators of subsidiary schools, to ensure that they are familiar with the specific content of ESMS and relevant international best practices. The awareness-raising trainings are required for the remaining functional department staff at both corporate and subsidiary school level, teachers, students and contractors, to raise ESMS awareness. A training matrix for both professional training and awareness-raising training has been developed by CEG at corporate level. The relevant staff of subsidiary schools / projects are required to participate in these training. The subsidiary schools can also develop and implement respective training plan in accordance with CEG's ESMS.

3.16. Monitoring and Reporting

A monitoring and reporting program at both corporate level and subsidiary school / project level has been established in accordance with the applicable environmental and social requirements. The ESMS coordinators of subsidiary schools and the designated person of newly developed projects are responsible for conducting monitoring according to the environmental and social monitoring plan and reporting the monitoring results to the ESMS Manager of CEG. The ESMS Manager is responsible for preparing annual environmental and social safeguards performance report and ESG annual report based on the monitoring results.