

# Second-Party Opinion

## Zhenro Green Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Zhenro Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – (i) Green Buildings, (ii) Renewable Energy, (iii) Energy Efficiency, (iv) Pollution Prevention and Control, and (v) Sustainable Water Management – are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that the eligible categories will reduce the carbon footprint and improve the environmental performance of Zhenro’s operations while advancing the UN Sustainable Development Goals, specifically SDG 6, 7, 11, and 12.



**PROJECT EVALUATION / SELECTION** Zhenro’s eligible projects will be evaluated and selected by an inter-departmental Green Bond Committee comprised of representatives from Treasury, Controlling, Legal, Engineering, Design, Operations and Investor Relations, and relevant business units. Final approval of shortlisted projects will be conducted by the Committee. Sustainalytics considers Zhenro’s project evaluation and selection process as in line with market practice.



**MANAGEMENT OF PROCEEDS** Zhenro commits to set up a Green Bond Register to earmark and track the allocation of net proceeds to eligible green projects. The Treasury Team will manage allocation of proceeds, and the Green Bond Committee will conduct an annual review on the green project portfolio. Pending full allocation, the unallocated proceeds will be held in cash or cash equivalents, or other short-term liquid marketable instruments. This process is in line with market practice.



**REPORTING** Zhenro intends to provide an annual allocation and impact report on its website until the full allocation of proceeds. The allocation report will include the following: (i) total amount of outstanding Green Bonds, (ii) aggregated amount per respective eligible green project, (iii) balance of unallocated net proceeds. Regarding impact reporting, Zhenro intends to report on impact metrics, and where feasible, impact assessment methodologies to ensure transparency. Sustainalytics views Zhenro’s allocation and impact reporting as aligned with market practice.

---

**Evaluation date** August 21, 2020

---

**Issuer Location** Shanghai, China

---

### Report Sections

---

Introduction.....	2
Sustainalytics’ Opinion .....	3
Appendices .....	8

---

**For inquiries, contact the Sustainable Finance Solutions project team:**

---

**Begum Gursoy (Amsterdam)**

Project Manager  
begum.gursoy@sustainalytics.com  
(+31) 20 205 0082

---

**Zhenyi LV (Toronto)**

Project Support  
Zhenyi.lv@sustainalytics.com  
(+1) 416 861 04 03

---

**Nicholas Gandolfo (Singapore)**

Client Relations  
susfinance.apac@sustainalytics.com  
(+852) 3008 2391

---

## Introduction

Zhenro Properties (“Zhenro”, the “Issuer”, or the “Company”) is a property developer focusing on the development of residential properties, and the development, operation and management of commercial and mixed-used properties in China. Zhenro was established in 1998 and is headquartered in Shanghai, China.

Zhenro has developed the Zhenro Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that will reduce the carbon footprint and improve the environmental performance of Zhenro’s operations while advancing the Company’s sustainability strategy. The Framework defines eligibility criteria in five areas:

1. Green Buildings
2. Renewable Energy
3. Energy Efficiency
4. Pollution Prevention and Control
5. Sustainable Water Management

Zhenro engaged Sustainalytics to review the Zhenro Green Bond Framework, dated August 2020, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ second-Party Opinion reflects Sustainalytics independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Zhenro’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Zhenro representatives have confirmed (1) they understand it is the sole responsibility of Zhenro to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Zhenro.

Sustainalytics’ second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The

<sup>1</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>2</sup> The Zhenro Green Bond Framework is available on Zhenro Properties’ website at: <http://www.zhenrodc.com/IR/en/index.html>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Zhenro has made available to Sustainalytics for the purpose of this SPO.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Zhenro Green Bond Framework

Sustainalytics is of the opinion that the Zhenro Green Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of Zhenro's Green Bond Framework:

- Use of Proceeds:
  - The eligible categories – (i) Green Buildings, (ii) Renewable Energy, (iii) Energy Efficiency, (iv) Pollution Prevention and Control, and (v) Sustainable Water Management – are aligned with those recognized by the GBP. Sustainalytics believes that Zhenro's investments will help to improve resource efficiency and promote energy savings, thus positively contributing to reducing GHG emissions of the Company's operations.
  - Zhenro has defined a 36 months look-back period for its refinancing activities, which Sustainalytics considers to be in line with market practice. Zhenro intends to invest all net bond proceeds until the maturity of the bond.
  - Under the Green Buildings category, Zhenro intends to finance the development, renovation, maintenance, operations or acquisitions of buildings that have received or are expected to receive a green building certification, namely Chinese Green Building Evaluation Label (2-star and above), LEED (Gold and above), and BREEAM (Excellent and above) or other equivalent domestic or international green building certification scheme. Sustainalytics views these certification schemes as credible, and the levels selected as impactful. (See Appendix 1 for a further description of the referenced building schemes). Regarding renovation projects, Sustainalytics highlights that Zhenro has set a minimum threshold of 30% energy savings compared to the baseline building performance prior to the renovation, which Sustainalytics considers to be in line with best market practice.
  - Under the Renewable Energy category, Zhenro intends to invest in solar energy systems to be used in residential and commercial buildings, including solar photovoltaic energy systems, solar sensor water system and solar water heating system, as well as energy storage dedicated to solar energy.
  - For the Energy Efficiency category, the Company intends to finance projects that will achieve a minimum of 15% energy efficiency improvements. Technologies to be deployed include smart meters, non-fossil fuel-powered heating and cooling systems, lighting retrofits, lift systems, and building controls.
  - The Pollution Prevention and Control Category includes investments in waste management projects that aim to prevent, minimize and/or recycle waste. Intended project examples include recycling facilities to be installed in buildings and construction area. Under the same category, Zhenro also intends to invest in dust control and noise reduction initiatives that are aimed at achieving the Chinese Green Building Evaluation Label.
  - Under the Sustainable Water Management category, Zhenro intends to invest in the construction, development, installation, operation and maintenance of infrastructure or equipment for collection, treatment, recycling or reuse water, rainwater or wastewater.

## Zhenro Green Bond Framework

- Project Evaluation and Selection:
  - Zhenro has established a Green Bond Committee comprised of representatives from their treasury, financial controlling, legal, engineering, design, operations and investor relations teams. The Committee will be responsible for approving projects as well as removing projects that no longer comply with the eligibility criteria.
  - Sustainalytics considers Zhenro’s approach to project evaluation and selection to be aligned with market practice.
- Management of Proceeds:
  - Zhenro will set up a green bond register to earmark and track the allocation of all net green bond proceeds from its general account to eligible projects. Zhenro intends to manage the green bond proceeds on a portfolio basis and the portfolio of projects will be reviewed by the Green Bond Committee at least annually.
  - Zhenro’s treasury team will temporarily hold unallocated net proceeds in cash, cash equivalents or in other short-term liquid instruments.
  - Sustainalytics considers Zhenro’s approach to management of proceeds to be aligned with market practice.
- Reporting:
  - Zhenro intends to publish an allocation report and impact report annually until full allocation, which will be made publicly available on Zhenro’s website.
  - The allocation report will include details on the total amount of outstanding green bond proceeds; aggregate amount allocated to eligible projects; and the balance of unallocated proceeds.
  - On impact reporting, Zhenro will, on a best effort basis, report on the environmental impacts achieved by the green projects. Example metrics that Zhenro will aim to report on include: level of building certification and annual GHG emissions (for the green building category); renewable energy generated (for the renewable energy category); energy savings (for the energy efficiency category); and the amount of rainwater collected and reused (for the sustainable water management category). Where feasible, Zhenro intends to provide further information on reporting and impact assessment methodologies to increase transparency.
  - Based on the processes and plans included here, Sustainalytics considers this process to be in line with market practice.

### Alignment with Green Bond Principles 2018

Sustainalytics has determined that the Zhenro Green Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

## Section 2: Sustainability Strategy of Zhenro

### Contribution of Framework to Zhenro Properties’ sustainability strategy

Zhenro has integrated sustainability practices into its business operations and has implemented a sustainability governance structure. Zhenro demonstrates a commitment to sustainability with a focus on the following key environmental areas: (i) Environmental Protection, (ii) Green Buildings, (iii) Emission Treatment, (iv) Waste Management, and (v) Resource Conservation.<sup>4</sup>

As a part of the Company’s commitment to environmental protection, Zhenro established an environmental management system, facilitated the design, development and construction of green buildings, and adopted initiatives to reduce its business operation’s environmental impact, including the promotion of green materials and equipment, adopting energy efficient lighting, and improving the efficiency of air-conditioning.<sup>5</sup> Under Zhenro’s environmental management system, the Company strives to improve its environmental monitoring capability and is gradually establishing environmental performance indicators to visualize its environmental achievements. Since the release of the first ESG report in 2017, Zhenro Properties has been tracking its air pollution, scope 1, 2 and 3 greenhouse gas emissions, waste management and energy consumption levels. To further ensure the sufficient control of its environmental impact, the Company has taken multiple measures

<sup>4</sup> Zhenro Properties, Environmental, Social and Governance Report 2019, at: <http://www.zhenrodc.com/uploads/20200623113615/f.pdf>

<sup>5</sup>Ibid

## Zhenro Green Bond Framework

in emissions management and energy saving areas such as introducing electric vehicles and educating employees to use recyclable materials and save energy during daily operations.

As part of the Company's commitment to promoting green building practices, Zhenro adopted prefabricated construction techniques to decrease the overall construction period by one-third, reduce wet operation on the construction site, and decrease pollution from construction dust, water consumption, material usage, construction waste and noise. Following the initiative, Zhenro has reduced dust pollution on-site by X%, water consumption by 60%, and construction waste by 80% (in 2019 compared to the 2017 levels).<sup>6</sup> Zhenro demonstrated its commitment to facilitating green buildings in China by investing in recognized green building projects, such as the Hongqiao Zhenro Center, which was awarded the highest three-star national green building certification and the "Asian Eco-Business Flagship".<sup>5</sup>

Zhenro has established a corporate social responsibility management system which includes the participation of all internal parties, from the Board of directors to employees. Under the management system, Zhenro has built a "Social Responsibility Think Tank", including institutions, experts and scholars from international and domestic industries. On the operational level, Zhenro has set up CSR working group under the divisions of Real Estate, Capital Investment and Business Development sector to ensure the implementation of its CSR strategy.<sup>7</sup>

Sustainalytics is of the opinion that the Zhenro Green Bond Framework is aligned with the Company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities. Sustainalytics recognizes the importance of the practices mentioned above by Zhenro and its management as important contributors to its sustainability performance, and encourages the Company to develop time-bound targets to further strengthen its environmental performance.

### Well-positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the net proceeds from the bond issued under the Framework will be directed towards eligible projects that are recognized by the GBP to have positive environmental impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social risks such as occupational health and safety, land use- change, biodiversity loss, public opposition, and emissions, effluents, waste generated in the construction. Sustainalytics is of the opinion that Zhenro is able to manage and/or mitigate potential risks through the implementation of the following:

- As part of China's Environmental Impact Assessment Act, all projects related to construction, reconstruction, expansion and/or refurbishing are obliged to conduct an environmental risk assessment during the initial phase of project design and feasibility analysis. The act stipulates that the assessment must include the identification of key risk factors related to air, water, soil pollution or human health. According to the Chinese law, all companies are required to undergo an assessment by an independent and certified environmental impact assessment agency in order to avoid any conflict of interest.<sup>89</sup>
- Under Zhenro's environment management system, all projects must undergo an environmental protection investigation to ensure the three are effective pollution control and environmental protection measures. The investigation covers aspects such as effects on surrounding atmosphere, surface and groundwater.
- As part of its waste management of both non-hazardous and hazardous waste, Zhenro prohibits illegal dumping of waste, and requires the inclusion of a qualified party to collect non-hazardous waste generated by daily operations.
- As part of its occupational health and safety measures, Zhenro has established a management system for reporting risks at work, and provide information on preventive measures to employees in accordance. Furthermore, the Company conducts regular knowledge sharing and training sessions on occupational safety for employees.
- Zhenro's ESG risk management governance structure is overseen by the Board of the Group. Following the top-to-bottom risk management structure, the Board is responsible for ESG reporting, and risk assessment, the ESG Development Committee is in charge of ESG-related decision making process, and the CSR working group incorporates ESG measures into daily operations. To further ensure the adequate implementation of measures, the Board of the Company conducts internal reviews on the Company's ESG risk management structure periodically.

<sup>6</sup> Zhenro Properties, Environmental, Social and Governance Report 2018, at: <http://www.zhenro.com/uploads/20190627180535/f.pdf>

<sup>7</sup> Zhenro Properties, Corporate Social Responsibility Report 2018, at: <http://www.zhenro.com/uploads/20190627180535/f.pdf>

<sup>8</sup> Environmental Impact Assessment in China, technical report available at: [https://www.researchgate.net/publication/268503532\\_Environmental\\_Impact\\_Assessment\\_in\\_China](https://www.researchgate.net/publication/268503532_Environmental_Impact_Assessment_in_China)

<sup>9</sup> Law of the People's Republic of China on Evaluation of Environmental Effects available at: <https://www.elaw.org/eialaw/china>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Zhenro has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories. Sustainalytics encourages the Company to further integrate community consultation processes in the design and construction phase of all large infrastructure projects.

### Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused below where the impact is specifically relevant in the local context.

#### Importance of energy efficiency for green buildings in China

In the context of China's energy consumption, building sector energy makes up a significant part of total energy consumption. According to the China Construction Energy Saving Committee, energy consumption from the building sector accounted for 21.11% of China's aggregate energy use, and around 19.5% of energy-related CO<sub>2</sub> emissions in 2017.<sup>10</sup>

Under the 13<sup>th</sup> Five Year Plan for Construction Development released by the State Council of China, the Chinese Government has set a target of increasing the share of urban green building to 50% of newly built infrastructures, and the proportion of green building materials used to reach 40%. To achieve this goal, energy-saving and emission-reduction technologies are promoted by the Government.<sup>11</sup> Furthermore, National Development and Reform Commission published the 13th Five Year Plan for Energy Development (2016-2020) to advance energy efficiency and energy consumption management, which aims to achieve a reduction in energy consumption per unit of GDP by 15% compared to 2015.<sup>12</sup>

Based on the above, Sustainalytics recognizes the importance of green building development in China, and its impacts on reducing energy consumption and carbon emission in the Country. The projects funded through Zhenro's green bonds are anticipated to bring positive impacts to the improvement of energy efficiency to the building and construction sectors of China.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Green Building	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable Water Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity

<sup>10</sup> China Construction Energy Saving Committee, China Construction Energy Consumption Report 2019, to be retrieved at: <http://www.cabee.org/site/content/23565.html>

<sup>11</sup> The State Council of China, 13<sup>th</sup> Five Year Plan for Construction Development 2017, at: <http://www.mohurd.gov.cn/wjfb/201705/W020170504041246.pdf>

<sup>12</sup> Energy Charter Secretariat, China Energy Efficiency Report (2018), at: [https://energycharter.org/fileadmin/DocumentsMedia/EERR/EERChina\\_ENG.pdf](https://energycharter.org/fileadmin/DocumentsMedia/EERR/EERChina_ENG.pdf)

---

## **Conclusion**

Zhenro has developed the Zhenro Green Bond Framework under which it intends to issue green bonds and the use of proceeds to finance eligible projects related to Green Buildings, Renewable Energy, Energy Efficiency, Pollution Prevention and Control, and Sustainable Water Management. Sustainalytics considers that the projects funded by the green bond proceeds will reduce the carbon footprint and improve the environmental performance of Zhenro's operations while advancing the UN Sustainable Development Goals, specifically SDG 6, 7, 11, and 12.

Zhenro Green Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Zhenro Green Bond Framework is aligned with the overall sustainability strategy of the Company. Additionally, Sustainalytics is of the opinion that Zhenro has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Zhenro is well-positioned to issue green bonds and that the Zhenro Green Bond Framework is robust, transparent, and in alignment with the four core components of the ICMA Green Bond Principles 2018.

## Appendices

### Appendix 1: Overview of the Green Building Certification Schemes

	LEED	BREEAM	CHINA THREE STAR
<b>Background</b>	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	The Chinese 3-Star Green Building Standard is a Certification System used in China for residential and public buildings (including commercial, hotel and government-owned) that was introduced in 2006 by MOHURD (Ministry of Housing and Urban-Rural Development).
<b>Certification levels</b>	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	1-Star 2-Star 3-Star
<b>Areas of Assessment: Environmental Performance of the Building</b>	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Transport</li> <li>• Materials</li> <li>• Water</li> <li>• Waste</li> <li>• Health and Wellbeing</li> <li>• Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Land savings and outdoor environment</li> <li>• Energy savings and utilisation</li> <li>• Water savings and utilisation</li> <li>• Material savings and utilisation</li> <li>• Indoor environment</li> <li>• Operations and management.</li> </ul>
<b>Requirements</b>	<p>Prerequisites (independent of level of certification) + Credits with associated points</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction,</p>	<p>Prerequisites depending on the levels of certification + Credits with associated points</p> <p>This number of points is then weighted by item<sup>13</sup> and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p>	<p>The system functions on a checklist basis, with 1-Star buildings meeting 26 criteria, 2-Star an additional 43 items, and 3-Star on a further 14 items. Criteria and weighting differ for public and residential buildings. In public buildings, more weight is given to energy and material savings, while the standard for residential buildings places greater importance on urban land saving and outdoor environments.</p>

<sup>13</sup> BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item



	Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).	BREAAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.	
<b>Performance display</b>		 <small>Pass Outstanding</small>	

## Appendix 2: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

**Issuer name:** Zhenro Properties

**Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:** Zhenro Green Bond Framework

**Review provider's name:** Sustainalytics

**Completion date of this form:** August 4, 2020

**Publication date of review publication:**

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |

- Other (please specify):

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

**EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)**

Please refer to Evaluation Summary above.

**Section 3. Detailed review**

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

**1. USE OF PROCEEDS**

Overall comment on section (if applicable):

The eligible categories –(i)Green Buildings, (ii)Renewable Energy, (iii)Energy Efficiency, (iv)Pollution Prevention and Control, and (v)Sustainable Water Management – are aligned with those recognized by the GBP. Sustainalytics believes that Zhenro’s investments will help to improve resource efficiency and promote energy savings, thus positively contributing to reducing GHG emissions of the Company’s operations. Zhenro has defined a 36 months look-back period for its refinancing activities, which Sustainalytics considers to be in line with market practice. Zhenro intends to invest all net bond proceeds until the maturity of the bond.

Under the Green Buildings category, Zhenro intends to finance the development, renovation, maintenance, operations or acquisitions of buildings that have received or are expected to receive a green building certification, namely Chinese Green Building Evaluation Label (2-star and above), LEED (Gold and above), and BREEAM (Excellent and above) or other equivalent domestic or international green building certification scheme. Regarding renovation projects, Sustainalytics highlights that Zhenro has set a minimum threshold of 30% energy savings compared to the baseline building performance prior to the renovation, which Sustainalytics considers to be in line with best market practice.

Under the Renewable Energy category, Zhenro intends to invest in solar energy systems to be used in residential and commercial buildings, including solar photovoltaic energy systems, solar sensor water system and solar water heating system, as well as energy storage dedicated to solar energy.

For the Energy Efficiency category, the Company intends to finance projects that will achieve a minimum of 15% energy efficiency improvements. Technologies to be deployed include smart meters, non-fossil fuel-powered heating and cooling systems, lighting retrofits, lift systems, and building controls.

The Pollution Prevention and Control Category includes investments in waste management projects that aim to prevent, minimize and/or recycle waste. Intended project examples include recycling facilities to be installed in buildings and construction area. Under the same category, Zhenro also intends to invest in dust control and noise reduction initiatives that are aimed at achieving the Chinese Green Building Evaluation Label.

Under the Sustainable Water Management category, Zhenro intends to invest in the construction, development, installation, operation and maintenance of infrastructure or equipment for collection, treatment, recycling or reuse water, rainwater or wastewater.

**Use of proceeds categories as per GBP:**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy                       | <input checked="" type="checkbox"/> Energy efficiency  |
| <input checked="" type="checkbox"/> Pollution prevention and control       | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation  |

- Sustainable water and wastewater management
  Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes
  Green buildings
- Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP
  Other (*please specify*):

If applicable please specify the environmental taxonomy, if other than GBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Zhenro has established a Green Bond Committee comprised of representatives from their treasury, financial controlling, legal, engineering, design, operations and investor relations teams. The Committee will be responsible for approving projects as well as removing projects that no longer comply with the eligibility criteria. Sustainalytics considers Zhenro's approach to project evaluation and selection to be aligned with market practice.

### Evaluation and selection

- Credentials on the issuer's environmental sustainability objectives
  Documented process to determine that projects fit within defined categories
- Defined and transparent criteria for projects eligible for Green Bond proceeds
  Documented process to identify and manage potential ESG risks associated with the project
- Summary criteria for project evaluation and selection publicly available
  Other (*please specify*):

### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
  In-house assessment
- Other (*please specify*):

## 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Zhenro will set up a green bond register to earmark and track the allocation of all net green bond proceeds from its general account to eligible projects. Zhenro intends to manage the green bond proceeds on a portfolio basis and the portfolio of projects will be reviewed by the Green Bond Committee at least annually. Zhenro's treasury team will temporarily hold unallocated net proceeds in cash, cash equivalents or in other short-term liquid instruments. Sustainalytics considers Zhenro's approach to management of proceeds to be aligned with market practice.

**Tracking of proceeds:**

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

**Additional disclosure:**

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (*please specify*):

**4. REPORTING**

Overall comment on section (if applicable):

Zhenro intends to publish an allocation report and impact report annually until full allocation, which will be made publicly available on Zhenro's website.

The allocation report will include details on the total amount of outstanding green bond proceeds; aggregate amount allocated to eligible projects; and the balance of unallocated proceeds.

On impact reporting, Zhenro will, on a best effort basis, report on the environmental impacts achieved by the green projects. Example metrics that Zhenro will aim to report on include: level of building certification and annual GHG emissions (for the green building category); renewable energy generated (for the renewable energy category); energy savings (for the energy efficiency category); and the amount of rainwater collected and reused (for the sustainable water management category). Where feasible, Zhenro intends to provide further information on reporting and impact assessment methodologies to increase transparency.

Sustainalytics considers this process to be in line with market practice.

**Use of proceeds reporting:**

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (*please specify*):

**Information reported:**

- Allocated amounts
- Green Bond financed share of total investment
- Other (*please specify*):

**Frequency:**

- Annual
- Semi-annual
- Other (*please specify*):

**Impact reporting:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):      |

**Information reported (expected or ex-post):**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings                         |
| <input type="checkbox"/> Decrease in water use              | <input checked="" type="checkbox"/> Other ESG indicators (please specify): |
|   | Level of certification by building   |
|   | Energy performance for buildings (in kWh per m2 and year)                  |
|   | % annual energy efficiency gains relative to an established baseline       |
|   | Renewable Energy capacity installed (in MW)                                |
|   | Renewable energy generated annually (in MWh)                               |
|   | Amount of rainwater collected and re-used (in m3)                          |

**Frequency**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

**Means of Disclosure**

- |   |  |
|---|--|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report      |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other (please specify): Zhenro's website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): |  |

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

[http://www.zhenrodc.com/IR\\_en/index.html](http://www.zhenrodc.com/IR_en/index.html)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |

Other (please specify):

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognized external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialized research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

## Disclaimer

**Copyright ©2020 Sustainalytics. All rights reserved.**

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 16 offices globally, Sustainalytics has more than 650 staff members, including more than 200 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).

