

Issuer: Zhenro Properties Group Limited

**<ZHPRHK USD350 million 7.35 02/05/25
(ISIN: XS2226898216)>**

Environmental Method Statement

14750600-CA

Certification date: 27 January 2021

<Zhenro Green Bond Framework> serves as the documented Environmental Method Statement for this Green Finance Certification Scheme (GFCS) application. It states Zhenro's method to achieve the intended positive environmental effect of the specified Green Bond.

<Brief introduction of Issuer>

Zhenro Properties Group Limited (“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

For this Green Finance Certification Scheme (GFCS) application, all projects are under the category “Green Buildings”.

(Enclosed Zhenro Green Bond Framework- August 2020)



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Document

Breakdown of Environmental Method Statement:

HKQAA obtained below information in assessment stage. This serves as a breakdown of above Environmental Method Statement against relevant requirement.

Use of Proceeds	
Green Projects category 1: Green Building	
Category in Green Project Classification¹	<input checked="" type="checkbox"/> Green Track 1. Energy Conservation and Efficiency <input type="checkbox"/> Red Track <i>Please specify the project technology and justification</i>
Major related environmental dimensions²	1.2 Sustainable Building
SDG's Target(s) and Indicator(s)³	Target 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.
Eligibility Criteria	<ul style="list-style-type: none"> - Development, renovation, maintenance, operations or acquisitions of buildings, that have received or are expected to receive: <ul style="list-style-type: none"> ■ Chinese Green Building Evaluation Label with a minimum certification level of 2 stars; ■ LEED with a minimum certification of Gold; ■ BREEAM with a minimum certification of Excellent; ■ Any other green building certification that is an equivalent standard of the above. - Building renovation are also eligible if energy savings of at least 30% comparison to the baseline performance of the building prior to the renovation will be achieved.
Significant / major environmental and social impact constituted by this type of project activities	Project-based environmental impact assessment with control measures is conducted at the beginning of the project and upon completion of the project. Upon completion, environmental protection check and acceptance report (竣工验收或竣工环保验收) is prepared for the approval by the local governmental department. Some common issues concerned are emission to air, waste water, solid waste and noise.
<i>(Replicate the table for more than one Green Projects category)</i>	
Refinancing (if applicable)	
An estimate of the share of proceeds for re-financing	100%

Which investments or project portfolios may be refinanced	Projects that have obtained Chinese Green Building Evaluation Label with certification level of 2 stars or 3 stars, namely 南京滨江紫阙, 南京正荣中心, 南京正荣中心 (绿建展馆), 苏州常熟紫誉华庭, 西安正荣紫阙台 (东区), 西安正荣紫阙台 (东学校), 长沙梅溪正荣府幼儿园, 长沙梅溪紫阙台
Expected look-back period for refinanced Green Projects.	No longer than 36 months from the time of issuance.

Green Project Evaluation and Selection

Mechanism	Projects financed through the net proceeds of the Green Bond issued under the Zhenro Green Bond Framework are evaluated and selected based on compliance with the Green Bond eligibility criteria outlined in the Framework.
Process to determine Green Projects	<p>Zhenro has established an inter-departmental Green Bond Committee (the "Committee") which is responsible to oversee the selection process and is responsible for:</p> <ul style="list-style-type: none"> - Approving the inclusion of pre-selected Eligible Green Projects - Monitoring and managing the Green Project Portfolio and corresponding Green Bond on an annual basis and taking measures to remedy and shortfall - Observing developments in the Green Bond Principles and other market standards relating to Green Bond instruments as well as developing market conventions and approve updates to the Zhenro Green Bond Framework (August 2020) accordingly <p>The Committee consists of representatives from Treasury (chair), Controlling, Legal, Engineering, Design, Operations and Investor Relations and relevant business units.</p> <p>The Committee will be responsible to ensure compliance of project eligibility and will manage the allocation of proceeds to Eligible Green Projects. The Committee will monitor the Eligible Green Project Portfolio on an ongoing basis and will exclude projects that no longer comply with the eligibility criteria or have been disposed of and will replace them on a best effort basis. An independent auditor or accredited verifier will review the alignment of financed projects with the eligibility criteria of the Zhenro Green Bond Framework (August 2020).</p>

Management of Proceeds

Mechanism	Zhenro intends to allocate, over time, an amount equal the net proceeds of the Green Bond to finance or refinance Eligible Green Projects, selected in accordance with the eligibility criteria, and using the evaluation and selection process outlined in the Zhenro Green Bond Framework (August 2020).
Process for tracking proceeds	<p>Zhenro will set up a virtual Green Bond Register and an internal process to earmark and track the allocation of outstanding Green Bond net proceeds to Eligible Green Projects. Zhenro will manage the Green Bond proceeds on a portfolio basis. The net proceeds of the Green Bonds will be deposited in the general account and an amount equal to the net proceeds will be earmarked for allocation to the Green Project Portfolio without legal segregation.</p> <p>The Green Project Portfolio will be reviewed by the Green Bond Committee and will be updated at least annually. On a best efforts basis, Zhenro intends to replace projects that no longer comply with the Eligibility Criteria or otherwise exits Zhenro's portfolio. Zhenro strives to maintain an amount of Eligible Green Assets</p>

	at least equal of the total net proceeds of all green bond outstanding.
Intended type of temporary investment instruments	<p>Pending full allocation, Zhenro's Treasury team will temporarily hold the unallocated net proceeds at its own discretion in cash or cash equivalents, or in other short-term liquid marketable instruments. In addition, the proceeds shall not be used for the following:</p> <ol style="list-style-type: none"> 1. Activity considered as illegal under host country laws or regulations or international conventions and agreements, or subject to international bans; 2. Production or trade in weapons and munitions; 3. Production or trade in alcoholic beverages (excluding beer and wine); 4. Production or trade in tobacco; 5. Gambling, casinos and equivalent enterprises; 6. Production or trade in radioactive materials (Equipment that the radioactive source considered to trivial and/ or adequately shielded, e.g. quality control equipment is not within this bound); 7. Production or activities involving harmful or exploitative forms of forced labor or harmful child labour.

Information Disclosure and Reporting

Mechanism	Zhenro is committed to be as transparent as possible and is committed to publish relevant information and documents regarding the Green Bond activities. Zhenro will provide an Allocation Report to inform about the allocation of proceeds as well as an Impact Reporting to communicate the positive environmental impact of financed green projects. The Allocation report and impact reporting would be included in the annual ESG report of Zhenro.				
Types of information will be reported	<p>Allocation reporting</p> <ul style="list-style-type: none"> - Total amount of outstanding Green Bonds - Aggregated amount allocated to respective Eligible Green Projects - Balance of unallocated net proceeds <p>Impact reporting</p> <p>Zhenro intends to report on the environmental impacts achieved by Eligible Green Projects financed. The impact reporting will include a description of Eligible Green Projects and impact metrics such as listed below.</p> <p>Where relevant, information may be provided on data reporting, and impact assessment methodologies, to increase transparency.</p> <table border="1"> <thead> <tr> <th>GBP category</th> <th>Potential impact indicators</th> </tr> </thead> <tbody> <tr> <td>Green Buildings</td> <td> <ul style="list-style-type: none"> - Level of certification by building - Energy performance for buildings (in kWh per m² and year) - Annual GHG emission avoided (in tCO₂eq) - Annual energy savings (in MWh) - % annual energy efficiency gains relative to an established baseline </td> </tr> </tbody> </table>	GBP category	Potential impact indicators	Green Buildings	<ul style="list-style-type: none"> - Level of certification by building - Energy performance for buildings (in kWh per m² and year) - Annual GHG emission avoided (in tCO₂eq) - Annual energy savings (in MWh) - % annual energy efficiency gains relative to an established baseline
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Method to disclose information	The reporting will be available on Zhenro's homepage: http://www.zhenrodc.com/IR_en/index.html .
Reporting frequency	The reporting will be made available within one year from the issuance of the bond (bond issued in Sep 2020) and will be updated annually until full allocation of the Green Bond net proceeds.

Green Project Monitoring

Mechanism	<p>Zhenro inspects and reviews the qualification and performances of its construction contractors regularly to ensure they are performing up to its standards. The company also performs extensive due diligence in the selection of other service providers as well, including external architectural and design firms, and raw material suppliers, based on factors such as their quality, reputation and track record. Zhenro has also established a comprehensive set of standardized technical and quality control guidelines that provide detailed requirements as to quality control standards and specifications for all major aspects of construction processes.</p> <p>All projects will undergo investigation for completion based environmental protection check and acceptance to ensure that the pollution control and ecological protection measures adopted by the contractors during construction are effective, in terms of avoiding environmental pollution and preventing the natural environment, including the surrounding atmosphere, surface water, ground water etc. from being affected</p>
Performance indicator (KPI)	<p>The buildings/ projects shall obtain Chinese Green Building Evaluation Label certification level of 2 stars or above, or with equivalent standard. In general, the Chinese Green Building Evaluation Label assessment would include the following KPIs.</p> <ul style="list-style-type: none"> • Energy efficiency ratio • Renewable energy utilization ratio (such as solar power) • Unconventional water source utilization ratio • Green area ratio • Ratio of reusable and recyclable construction materials
Underlying methodology for KPI	Requirements of Chinese Green Building Evaluation Label certification level of 2 stars or above, or with equivalent standard
KPI measurement – Reference standard	<input type="checkbox"/> International Standard <input checked="" type="checkbox"/> National Standard <input type="checkbox"/> Industry Standard <input checked="" type="checkbox"/> Self-development Standard <input checked="" type="checkbox"/> Others, Please specify: <u>Fulfill the requirements by government during the completion based environmental</u>

	<u>protection check and acceptance</u>
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Impact Assessment	
Mechanism	Project-based environmental impact assessment with control measures is conducted at the beginning of the project and upon completion of the project.
Method	<p>Impact assessment form (建设项目环境影响登记表或同类表格) is submitted to local governmental department at the beginning of the project. Upon completion, key environmental impacts such as emission to air, waste water, solid waste and noise are included in the completion based environmental protection check and acceptance report (竣工验收或竣工环保验收) which is approved by the local governmental department.</p> <p>Impact reporting</p> <p>In addition to project-based environmental impact assessment, on a best effort basis, Zhenro intends to report on the environmental impacts achieved by Eligible Green Projects financed. The impact reporting will include a description of Eligible Green Projects and impact metrics.</p>
Time frame	<p>Project-based environmental impact assessment with control measures is conducted at the beginning of the project and upon completion of the project.</p> <p>The Impact Reporting will be made available within one year from the issuance of the bond and will be updated annually until full allocation of the bond net proceeds.</p>
Identification of negative impacts and mitigation measures	The project development team lists out the potential risks associated with the negative impacts, and would set up some guidelines and timeframe for the mitigation.

Stakeholder Engagement	
Mechanism	Zhenro has identified its main stakeholders and engaged with them by different means as stated in "Method" below.
Method	<p>Zhenro's stakeholders mainly include government, employees, customers, contractors, neighborhoods and shareholders.</p> <ol style="list-style-type: none"> 1. Government - Zhenro develops the projects according to the rules and regulation set out by the relevant government departments. The company must obtain government's written approval on the project's design and planning and before the construction is commenced. 2. Employee - Zhenro's employees actively facilitates the design, development and construction of green buildings. The company explores the possibilities of product innovation by taking factors such as natural, environment, culture and health into account. It is committed to continuously improving and upgrading the properties to suit the various needs of customers in their daily life. This is being carried out on an o-going basis.

	<p>3. Customers - Zhenro carries out customer satisfaction survey annually with its customers in order to understand their needs.</p> <p>4. Contractors - Zhenro inspects and reviews the qualification and performances of its construction contractors regularly. Zhenro also performs extensive due diligence on a daily basis in the selection of our service providers, including external architectural and design firms, and raw material suppliers, based on factors such as their quality, reputation and track record.</p> <p>5. Neighborhoods – Project management team would communicate with its neighborhoods (if any and if necessary) during the development of the projects in order to address neighborhood’s concerns (if any).</p> <p>6. Shareholders - The annual reporting will be included in the annual ESG Report, which will be reviewed and approved by the Board of Directors. The ESG report is available in the company’s website.</p>
Time frame	<ul style="list-style-type: none"> As stated in “Method” above

Remarks:

Reference Number	Title
1	HKQAA, Green Finance Certification Scheme Handbook (2018): Green Project Classification
2	United Nations Environmental Programme (UNEP), Sustainable Development Goals: United Nations Environment Programme: Annual Report 2015 https://wedocs.unep.org/bitstream/handle/20.500.11822/7506/-Sustainable_Development_Goals_-_UNEP_annual_report_2015-2016UNEP-AR-2015-SustainableDevelopmentGoals.pdf.pdf?sequence=3&isAllowed=y
3	UNEP, About the Sustainable Development Goals https://www.unenvironment.org/explore-topics/sustainable-development-goals/about-sustainable-development-goals
4	Zhenro Properties - Green Bond Framework (Final) dated August 2020
5	Zhenro Properties - Green Bond Framework Second Party Opinion (Final)- provided by Sustainalytics with an evaluation date of 21 August 2020