

Green Framework Alignment Opinion

Zhenro Properties Group Ltd.'s Green Bond Framework

April 1, 2021

Green Bond Framework Overview

In our view, Zhenro Properties Group Ltd.'s green bond framework, published in August 2020, is aligned with the four components of the Green Bond Principles (GBP). Founded in 1998, Zhenro is one of the 20 largest property developers in China. The company engages in the development of residential properties, and in the development, operation, and management of commercial and mixed-used properties. The company has developed a green bond framework to allow its investors to participate in its efforts to facilitate the transition to an environmentally sustainable future. Eligible projects must align with Zhenro's objective to reduce "the impacts from business operation on the environment and natural resources."

PRIMARY CONTACTS

Chloe Lin
Singapore
+65 6216 1107
chloe.lin
@spglobal.com

Bertrand Jabouley
Singapore
+65 6239 6303
bertrand.jabouley
@spglobal.com

Framework Alignment Overview



1. Use of proceeds

Zhenro's green bond framework is aligned with this component of the GBP because the company commits to utilize the net proceeds of the financing instruments issued under the framework to fund eligible green assets. Eligible categories cover: (i) green buildings; (ii) renewable energy; (iii) energy efficiency; (iv) pollution prevention and control; and (v) sustainable water management. The GBP recognizes these categories in its taxonomy, insofar as they contribute to climate change mitigation, natural resources conservation, and pollution prevention.



2. Process for project evaluation and selection

Zhenro's green bond framework is aligned with this component of the GBP because the framework outlines the process to assess if projects under study belong to the five eligible categories. It involves a dedicated inter-departmental Green Bond Committee that ensures selected green ventures are aligned with both Zhenro's definition of eligible projects and the GBP guidelines. The committee includes a representative from the Treasury (chair), Controlling, Legal, Engineering, Design, Operations and Investor Relations departments and relevant business units.



3. Management of proceeds

Zhenro's green bond framework is aligned with this component of the GBP. The issuer will deposit the net proceeds from the financing instruments issued under the company's framework into the general account, i.e. without legal segregation. Zhenro will maintain a green bond register to monitor the use of proceeds and will manage proceeds pending allocation or reallocation to eligible projects following its liquidity guidelines.



4. Reporting

Zhenro's green bond framework is aligned with this component of the GBP because the company intends to disclose annually the allocation of funds across the eligible green projects and the environmental impact, where possible. Zhenro will report all relevant information on its website.

Issuer Sustainability Objectives

Zhenro appreciates that property development may impact the environment. Beyond abiding by applicable laws and regulations, the company endeavors to promote the construction and renovation of green buildings. Its sustainability efforts address both the green specifications of new buildings and the optimization of the construction phase. For instance, the 2019 sustainability report explains how Zhenro adopted prefabricated construction techniques to decrease time to completion by one-third, thereby reducing associated waste, dust, and water usage. In addition, the company aims to improve its environmental monitoring capability, to take timely corrective measures when needed, and better manage its environmental footprint as a result.

Zhenro's commitment to promote sustainable environment development fits with the 2030 Sustainable Development Goals (SDGs) from the United Nations. The green bond framework (GBF) presents the respective SDGs each eligible green project category supports. These include clean water and sanitation (SDG 6); affordable and clean energy (SDG 7); industry, innovation and infrastructure (SDG 9); sustainable cities and communities (SDG 11); responsible consumption and production (SDG 12); and climate action (SDG 13).

Framework Description

1. Use of proceeds



The GBP stipulates that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green projects. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives: (1) climate change mitigation; (2) climate change adaptation; (3) natural resource conservation; (4) biodiversity conservation; and (5) pollution prevention and control.

Zhenro commits to allocate all net proceeds of issuances exclusively to green projects that meet eligibility criteria. Each of the five eligible categories stated in Zhenro's green finance framework – (i) green buildings; (ii) renewable energy; (iii) energy efficiency; (iv) pollution prevention and control; and (v) sustainable water management – meet at least one of the GBP's environmental objectives.

Green buildings, including new construction, acquisition, and renovation of existing buildings (with clear minimum energy saving targets), help in climate change mitigation. Investments in waste minimization and recycling, dust control, and noise reduction contribute to the objective of pollution prevention and control in the GBP. Investments in solar and energy storage technologies and energy efficiency initiatives meet several GBP categories. Reliance on infrastructure or equipment for collection, treatment, recycling, or reuse of water, rainwater, or wastewater contributes to natural resource conservation.

Therefore, we regard the framework as aligned with the use of proceeds component of the GBP.

2. Process for project evaluation and selection



To align with the second component of the GBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects--including exclusionary criteria, if applicable--and the overall sustainability objectives that underpin the selection process.

Zhenro's GBF commits to apply eligibility criteria to financed projects to ensure their environmental sustainability objectives are met. Eligible projects contribute to the company's endeavor to reduce the impact of its business operations on the environment and natural resources. Accordingly, Zhenro constructs and renovates modern green buildings, meeting Chinese Green Building Evaluation Label with a minimum certification level of two stars, Leadership in Energy and Environmental Design (LEED) with a minimum certification of Gold, Building Research Establishment Environmental Assessment Method (BREEAM) with a minimum certification of Excellent or any other equivalent green building certification.

Zhenro gathers representatives from its key departments in a Green Bond Committee, which is responsible for projects' selection process. The committee approves the inclusion of preselected eligible green projects. It is also in charge of observing developments in the GBP and other market standards to ensure the company's GBF remains relevant.

With a structured process involving key internal constituents, Zhenro demonstrates alignment with the second component of the GBP.

3. Management of proceeds



The GBP requires a seeker of finance to monitor the net proceeds of all outstanding green bond transactions. This includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green projects. The GBP also requires a seeker of finance to disclose to investors the intended types of temporary placement they intend to use for unallocated proceeds.

Zhenro's GBF describes the procedure to allocate all proceeds from any green bond transaction to a portfolio of eligible green project categories. The company will deposit the proceeds in its general account. In parallel, the company will maintain a "Virtual Green Bond Register" to track the use of proceeds for each green bond issue, including the amount of proceeds allocated to each eligible green project and the unallocated proceeds. Zhenro will manage unallocated proceeds as per its liquidity guidelines, i.e. in cash or cash equivalents, or in other short-term liquid marketable instruments.

Zhenro strives to maintain an aggregate amount of eligible green assets at least equal of the total net proceeds of all green bonds outstanding. The framework is therefore, in our opinion, aligned with the third component of the GBP.

4. Reporting



The GBP stipulates that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental impact.

Zhenro will report annually on its website the total amount of outstanding green bonds, aggregate amount allocated to respective eligible green projects, and the balance of unallocated net proceeds. The company also commits to report on a best-effort basis the environmental impact of eligible green projects through a set of advanced environmental indicators. These indicators include avoided greenhouse gas (GHG) emissions, targeted energy savings, renewable energy capacity installed, and energy performance.

As the framework outlines how company's website will cover all required aspects stipulated in the GBP, we regard this green finance framework as aligned with this component of the GBP.

Additional Features Of The Framework

This section of the report provides additional information on whether the framework incorporates recommended aspects of the GBP and goes beyond minimum requirements. This section does not impact on our alignment opinion with the stated principles.

Zhenro's GBF has a good level of transparency and disclosure, and provides sufficient details for investors to understand the company's approach to green bonds. Zhenro's green bond framework has the following strengths.

- The framework requires all proceeds to be allocated to eligible projects that fall within any of the five GBP categories to support the associated UN SDGs.
- The GBF also specifies quantitative energy saving thresholds for projects' eligibility. For example, under the Green Buildings category, renovation projects should meet an energy saving level of 30% or more in comparison to the baseline performance level.
- Zhenro's GBF sets a minimum level of certification for green building projects to be eligible for project finance. The company requires green buildings to be certified with either (1) China's Green Building Evaluation Label (GB) – minimum certification of two stars, (2) LEED – minimum certification of Gold, (3) BREEAM – minimum certification of Excellent, or (4) any other standard of equivalence.
- Zhenro commits to seek assurance from accredited verifiers to assess the alignment of financed project with the eligibility criteria of its framework.
- The GBF uses core performance indicators to evaluate positive environmental impacts achieved by green projects, which enhance the level of transparency for Impact Reporting. The GBF stipulates the performance indicators used for five eligible categories and commits to disclose the environmental impacts of financed projects publicly on an annual basis. Examples of indicators include minimum requirements on building certification standards, quantity of annual GHG emission avoided in tons of carbon dioxide equivalent, amount of annual energy savings in megawatt hours (MWh), and percentage annual energy efficiency gains relative to an established baseline scenario.

Zhenro's green bond framework has the following limitations.

Green Bond Framework

- The company does not plan to disclose the underlying methodology and assumption used to derive the quantitative impact indicators for Impact Reporting.
- In addition, the framework does not commit to follow the voluntary guidelines, i.e. Harmonized Framework for Impact Reporting as recommended by International Capital Market Association (ICMA).

Conclusion

Based on our assessment of the contents of Zhenro's green bond framework, we regard this framework as being aligned with the four components of the GBP. This is given the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of the bonds to eligible green projects, as defined by the seeker of finance;
- Use clear green criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Commit to regular reporting of the environmental impact and use of proceeds.

Mapping To The UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by the year 2030. Zhenro's GBF intends to contribute to the following SDGs:

Use of proceeds

Green Buildings



11. Sustainable cities and communities

Renewable Energy



7. Affordable and clean energy

Energy Efficiency



7. Affordable and clean energy

Pollution Prevention and Control



12. Responsible consumption and production

Sustainable Water Management



6. Clean water and sanitation

Green Bond Framework

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