

## Sustainability Framework Alignment Opinion

# China SCE Group Holdings Ltd.

Sept. 1, 2021

### Sustainable Financing Framework Overview

In our view, China SCE Group Holdings Ltd.'s (China SCE) sustainable financing framework, published in September 2021, is aligned with the four components of the Green Bond Principles 2021 (GBP) and the four components of the Social Bond Principles 2021 (SBP), collectively referred to under the Sustainability Bond Guidelines. It is also aligned with the four components of the Green Loan Principles 2021 (GLP) and Social Loan Principles 2021 (SLP), collectively referred to as the Principles.

China SCE, a Chinese property developer, also engages in property management services and rental apartments. This financing framework reflects the company's commitment to develop green buildings that support community development.

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## Framework Alignment Overview



### 1. Use of proceeds

The China SCE sustainable financing framework is aligned with this component of the Principles. The company commits to using the net proceeds of financing raised under the framework to fund eligible green and social projects that belong to categories defined by the Principles.



### 2. Process for project evaluation and selection

The China SCE sustainable financing framework is aligned with this component of the Principles. The company discloses how the Sustainable Development Steering Committee (SDSC), hosted by the board and attended by senior executives, selects and reviews eligible projects for the use of proceeds. Approval of projects is the responsibility of the board of directors.



### 3. Management of proceeds

The China SCE sustainable financing framework is aligned with this component of the Principles. China SCE's finance teams will maintain a register of each green and/or social financing transaction (bonds, loans, or other debt instruments) that contains information on the use of its proceeds. Unallocated proceeds may be invested in cash or equivalents, short term deposits, and money market funds. Funds assigned to projects that cease to be eligible will be redirected to eligible assets.



### 4. Reporting

The China SCE sustainable financing framework is aligned with this component of the Principles. The company will disclose the allocation and environmental or social impact of transactions annually. Reporting will be on an aggregated basis and cover all eligible green or social projects. The company has a list of potential impact indicators for each category of project.

## Issuer Sustainability Objectives

China SCE, a property developer, also engages in property management services and rental apartments. The company's sustainability objectives focus primarily on embedding environmentally sustainable practices and social development in its operations and buildings. The funds raised under this Framework will be used to support the design, development, and equipment/fit-out of green and social projects. Regulatory oversight and approvals needed for construction projects contain environmental and social requirements, which means China SCE conducts impact assessments as part of planning submissions to the government. The importance of sustainability to China SCE is reflected in the stature and authority of its SDSC, which is hosted by members of the board and contains executive members from key departments. Members are from departments including the Group President's Office, Construction, Internal Audit and Compliance, Human Resources, and Finance.

## Framework Description

### 1. Use of proceeds

The Principles stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green and social projects respectively. According to the GBP and GLP, eligible projects will seek to achieve at least one of five environmental objectives, including: 1) climate change mitigation, 2) climate change adaptation, 3) natural resource conservation, 4) biodiversity conservation, and 5) pollution prevention and control. According to the SBP and SLP, following eligible project categories capture the most common social issues: 1) affordable basic infrastructure, 2) access to essential services, 3) affordable housing, 4) employment generation, and programs designed to prevent and/or alleviate unemployment, 5) food security and sustainable food systems and 6) socioeconomic advancement and empowerment.



We regard China SCE's sustainable finance framework to be aligned with the use of proceeds component of the Principles. We consider the company's overall use of proceeds commitments to be strong.

China SCE is committed to allocating the net proceeds of each transaction issued under its framework exclusively for financing or refinancing eligible green and social projects. Proceeds will not be used to refinance projects that have had initial disbursement more than 36 months prior to proceeds being raised. The company's projects are concentrated in China. The company links eligible projects to specific company objectives. In addition, China SCE specifies many target populations to benefit from social projects.

Green eligible categories cover green buildings, sustainable water management, pollution prevention and control, and renewable energy. These categories address the objectives of the GBP and GLP. For example, financing certified green buildings helps to mitigate climate change by reducing energy consumption, and the recycling or reuse of water supports sustainable water management.

Social projects focus on affordable housing and access to essential services, particularly quality education to boost employment. Affordable housing is supported via resettlement housing units for residents who previously lived on the land subject to redevelopment. In addition, these projects provide schooling, medical clinics, and free recreational facilities near these communities. The proceeds can also be used to fund scholarships to students from disadvantaged populations. This can boost skills for employment and entrepreneurship.

The framework contains an exclusions list that covers exposures such as precious metals and minerals, artwork and antiques, weapons, alcohol, tobacco, and nuclear power.

## 2. Process for project evaluation and selection



To align with the second component of the Principles, 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.

China SCE's framework is aligned with the Principles' requirements for project evaluation and selection process. We consider the company's overall process for project selection and evaluation commitments to be satisfactory.

The company's SDSC is responsible for the review and selection of eligible projects according to the criteria outlined in the framework. It will also ensure that projects are eligible and meet China SCE's wider Environmental, Social, and Governance Policies, which incorporate enterprise risk management tools to mitigate identified ESG risks. The SDSC's responsibility extends beyond project selection to include strategy development, approval of the annual ESG report, and development of ESG performance targets. The SDSC is hosted by members of the board and containing executive members of key departments. This reflects its seniority. Members come from the Group President's Office, Construction, Internal Audit and Compliance, Human Resources, and Finance.

## 3. Management of proceeds



The Principles require a seeker of finance to monitor the net proceeds of all outstanding green and social financing transactions, which includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green and social projects. The Principles also require a seeker of finance to disclose to investors the intended types of temporary placement they intend to use for unallocated proceeds.

China SCE's sustainable financing framework is aligned with the management of proceeds contained in the Principles.

The company will track proceeds of each transaction under a register. This register will identify key information on the funding transaction and the allocation of these proceeds, including specific projects and information on temporarily unallocated proceeds. Finance teams are committed to allocating all proceeds within one year of the financing transaction and are responsible for tracking proceeds via China SCE's accounting system. If a project ceases to fulfill the eligibility criteria, China SCE will allocate the funding to other eligible assets as soon as practicable.

Unallocated net proceeds will be held in cash, cash equivalents, short term deposits, and money market funds that align with China SCE's liquidity management policy.

## 4. Reporting



The Principles stipulate 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 and social impacts.

China SCE's sustainable financing framework is aligned with the Principles' recommendations for a commitment to proceeds allocation and impact reporting on environmental and social considerations. We consider the company's overall reporting practices to be satisfactory.

Allocation reporting will provide indicators such as the aggregate amount allocated to each eligible project category (e.g. green buildings and renewable energy), the split between new financing and refinancing, the balance and type of investment of unallocated proceeds, and illustrative examples describing projects receiving proceeds.

China SCE will report on the environmental and social impact of projects funded with the proceeds raised under this framework on a best effort basis. For each category of eligible projects, the company has identified example indicators to measure the impact. For example, it will disclose the certificates and energy savings of green buildings, and reductions in energy or water use for projects that target these respective efficiencies. Social indicators are high level given the wide range of people that the company seeks to benefit from eligible social projects, and will be verified by third-party assessments whenever possible. The company's indicators will be determined with reference to the Harmonized Framework for Impact Reporting and other International Capital Market Association (ICMA) resources.

The company will publicly disclose such reports annually until the proceeds of financing are fully allocated. The SDSC will review and approve the allocation and impact reports.

## Additional Features Of The Framework

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

China SCE's sustainable financing framework follows the voluntary guidelines provided by the Principles. In some cases, the framework goes beyond the requirements of the Principles. The key strengths of the framework are:

- Eligibility criteria for green buildings reference environmental standards and certifications such as Leadership in Energy and Environmental Design (LEED), Building Research Establishment Environmental Assessment Method (BREEAM), and Chinese Green Building Label.
- Reporting will include the share of new financed versus refinanced projects.
- Intent to align impact reporting with guidelines outlined in the ICMA's June 2021 handbook on Harmonized Framework for Impact Reporting.

Offsetting the above strengths are the following:

- Social indicators are high level and the target population list extensive, reflecting government-directed populations.
- Mitigants to social risks are not well identified, although mitigants to environmental risks are identified.
- There is no commitment to engage an independent third party to assure the contents of allocation or impact reports, or the processes to allocate and track proceeds.

## Conclusion

Based on our assessment of the contents of China SCE sustainable financing framework, we regard this framework as being aligned with the four components of the Principles, given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of financing to eligible green and social projects, as defined by the seeker of finance;
- Use clear green and social 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 and social impact and use of proceeds.

## Mapping To The UN Sustainable Development Goals

The SDGs were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by the year 2030. We use the International Capital Market Association (ICMA) SDG mapping for this part of the report. We acknowledge that the ICMA mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

The China SCE Group Holdings Limited Sustainable Financing Framework intends to contribute to the following SDGs:

### Use of proceeds

### SDGs

#### Green Buildings



**9. Industry,  
innovation and  
infrastructure\***



**11. Sustainable  
cities and  
communities**



**13. Climate action\***

#### Sustainable Water Management



**6. Clean water  
and sanitation**

#### Pollution Prevention and Control



**12. Responsible  
consumption and  
production**

#### Renewable Energy



**7. Affordable and  
clean energy**

#### Affordable Housing



**3. Good health  
and well-being\***



**10. Reduced  
inequalities\***



**11. Sustainable  
cities and  
communities**

Access to Essential Services



4. Quality  
education

\*We could link the eligible project categories to those SDGs based on the ICMA mapping

## Sustainability Framework Alignment Opinion

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