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Second Party Opinion

Hangzhou Shangcheng District Urban Construction & Comprehensive Development Co. Ltd.'s Green Finance Framework

Aug. 22, 2023

Established in 2003, Hangzhou Shangcheng District Urban Construction & Comprehensive Development Co. Ltd. (Shangcheng Urban Construction) is a government-owned company that primarily engages in land consolidation and infrastructure construction in the Shangcheng district of Hangzhou city, China. The company acts as a government enabler to undertake urban planning and municipal construction of the district.

In our view, Shangcheng Urban Construction's green finance framework, published in August 2023, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1) (GBP)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023 (GLP)

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Issuer's Sustainability Objectives

Shangcheng Urban Construction aims to strengthen the socioeconomic development of Shangcheng district, while contributing to China's decarbonization goal under the 14th Five-Year Plan. The company embeds the concept of green development into its infrastructure projects throughout the design, construction, operation and management phases. This is through initiatives such as accelerating the research and development of low-carbon technologies. It also has several environmental commitments, such as upgrading public infrastructure relating to resource conservation, and pollution prevention and control.

Shangcheng Urban Construction has developed this green finance framework to issue green financing instruments (GFIs), including bonds, loans, and other debt-like instruments, and fund projects that align with the company's environmental commitments.

Second Party Opinion Summary


Use of proceeds

Alignment  Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

Score Not aligned **Aligned** Strong Advanced

Shangcheng Urban Construction commits to allocating an amount equal to the net proceeds of the funds raised under the framework exclusively to eligible green projects that contribute to some environmental objectives and specific U.N. Sustainable Development Goals (SDGs). The company intends to report the share of financing versus refinancing of eligible projects. It restricts the look-back period for refinanced projects to three years from the time of issuance, slightly longer than market best-practice. Also, the broad definition of project eligibility and the absence of quantitative performance thresholds somewhat limit insights on the environmental benefits of the projects.


Process for project evaluation and selection

Alignment  Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

Score Not aligned **Aligned** Strong Advanced


Shangcheng Urban Construction's framework outlines the process to select and approve eligible green projects. The company's cross-departmental environmental working group (EWG) will meet annually to discuss and select projects according to the framework's eligibility and exclusion criteria. Shangcheng Urban Construction will rely on its internal control framework and environmental protection survey to identify and manage the associated environmental and social risks.

Management of proceeds

Alignment  Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

Shangcheng Urban Construction will deposit the net proceeds of the GFIs in its general funding account, managed by its finance team. The company commits to adjusting the balance of net proceeds to match allocations to eligible green projects during the time the instrument is outstanding. Unallocated proceeds will be held in short-term time deposits, and the temporary placement will be disclosed.

Reporting

Alignment  Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

Score Not aligned **Aligned** Strong Advanced

Shangcheng Urban Construction commits to disclosing the allocation of net proceeds and the expected and actual impacts of the financed projects annually until the full allocation of net proceeds. This information will be publicly available on the company's official WeChat account.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

✓ Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Shangcheng Urban Construction's overall use of proceeds commitments to be aligned with the Principles.

The company commits to allocating an amount at least equivalent to the net funding raised under the framework exclusively to finance or refinance eligible projects within two years of issuance.

The framework has three eligible green categories-- energy efficiency, pollution prevention and control, and renewable energy. These projects aim to contribute to environmental objectives such as climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention. Each of them also supports specific U.N. SDGs.

The framework describes the intended environmental benefits of the projects. For example, the use of advanced construction technology and upgrade of the lighting system reduces the carbon footprint as a result of higher energy efficiency (SDG 7, 9, 12). Similarly, renewable energy projects will invest in solar-related equipment (e.g. photovoltaic curtain walls and distributed photovoltaic power generation) in the company's infrastructure construction process (SDG 11, 12). Shangcheng Urban Construction's pollution prevention and control projects aim to improve the soil and groundwater condition in Shangcheng district through remediation work (SDG 7). That said, the remediation work seems to be part of the mitigation measures of the company's urban construction and development activities, not adding additional environmental benefits. In addition, the broad definition of project eligibility and absence of quantitative performance thresholds limit our insights on the environmental benefits.

Shangcheng Urban Construction will disclose the share of financing versus refinancing of the proceeds in its allocation reporting. The look-back period for refinanced projects will not exceed three years from the time of issuance. While this is market standard, a shorter maximum look-back period is a better practice.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our assessment on the process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

✓ Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider Shangcheng Urban Construction's overall process for project selection and evaluation to be aligned with the Principles.

The framework communicates how projects fit within the company's environmental commitments, and the process to determine how projects fit within eligible green categories. The company has set up an EWG, consisting of members from the director's office, relocation and

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resettlement, engineering, financial planning, and front-end departments. The EWG will meet annually to discuss and select projects according to the framework's eligibility criteria. In addition, the selection of eligible projects will be guided by relevant national laws and regulations (e.g. Energy Saving Regulation of the People's Republic of China), as well as its internal policies relating to green development. The company commits to not allocating proceeds to activities on the latest International Finance Corporation's exclusion list. Such activities include weapons, alcohol, tobacco, gambling, radioactive material, and forced or child labor.

The framework also details Shangcheng Urban Construction's processes to identify and manage environmental and social risks associated with the financed projects, guided by its internal control and policy framework. An environmental protection survey will be conducted at the design and development phase, and mitigation measures will be taken during the construction phase to ensure effective protection measures and controls are in place. However, clearer disclosure on how the company will identify and manage social related risks, and the procedures to identify mitigants would add transparency to the framework.

Shangcheng Urban Construction does not reference any market-based taxonomies, standards, or certifications in its eligibility criteria. The use of such references is a stronger market practice.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

The net proceeds of each GFI will be deposited in Shangcheng Urban Construction's general funding account, managed by the finance team. The company commits to tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible projects during the time the instrument is outstanding.

Pending allocation, unallocated proceeds will be held in short-term time deposits or other short-term wealth management products. The temporary placement of unallocated proceeds will be disclosed. The company also commits to not invest unallocated proceeds in any activities that conflict with the eligibility criteria of this framework.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider commitments for reporting on the allocation of proceeds to eligible projects and the expected or actual impact of the projects financed, as well as the frequency of reporting.

 Shangcheng Urban Construction's green finance framework is aligned with this component of the GBP and GLP.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Shangcheng Urban Construction's overall reporting practices to be aligned with the Principles.

The company commits to reporting the allocation of the net proceeds, and the impact of the financed projects. It will report the information on an annual basis until the net proceeds are fully allocated. This information will be publicly available on the company's official WeChat account.

Allocation reporting will include the summary information of financed projects, the share of financing versus refinancing, details of outstanding GFIs, and the balance of unallocated proceeds and its temporary placement, among others.

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In addition, Shangcheng Urban Construction will disclose the expected and actual impact of the financed projects. Impact indicators will include the amount of energy saved, volume of contaminated soil and groundwater remediated, and installed renewable energy production capacity, among others.

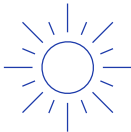




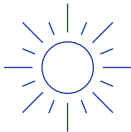
Shangcheng Urban Construction will consider, rather than commit to, aligning with the International Capital Market Association's (ICMA) Harmonized Framework for Impact Reporting. Also, the issuer does not commit to an independent review of any post-issuance reporting.

Mapping To The U.N.'s Sustainable Development Goals

The SDGs, which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's 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.

Shangcheng Urban Construction's green finance framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Energy efficiency			
	*7. Affordable and clean energy	*9. Industry, innovation and infrastructure	12. Responsible consumption and production
Pollution prevention and control			
	*11. Sustainable cities and communities	*12. Responsible consumption and production	
Renewable energy			
	*7. Affordable and clean energy		

*The eligible project categories link to these SDGs in the ICMA mapping.

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