

# Second-Party Opinion

## Shui On Land Sustainability-Linked Bond Framework

### Evaluation Summary

Sustainalytics is of the opinion that the Shui On Land Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- Selection of Key Performance Indicators (KPI)** Shui On Land Sustainability-Linked Bond Framework includes one KPI: Scope 1 and 2 GHG emissions intensity (see Table 1). Based on the consideration for the materiality of the KPI, its relevance to Shui On Land’s business, the scope of its applicability, and ability to be benchmarked, Sustainalytics considers the KPI to be strong.
- Calibration of Sustainability Performance Target (SPT)** Sustainalytics considers the SPT to be aligned with the Issuer’s sustainability strategy. Sustainalytics notes that the SPT i) goes beyond business-as-usual, ii) exceeds peer performance/targets and iii) aligns with a well-below 2-degree climate scenario. As such, Sustainalytics is of the opinion that the SPT is ambitious and demonstrates industry leadership.
- Bond Characteristics** Shui On Land will link the bond’s financial/ structural characteristics to the achievement of the SPT, where a failure to achieve the SPT at target observation date will trigger a penalty. The penalty will reference the coupon rate and an equivalent amount to the coupon rate step-up will be settled in one of the following ways: i) increase in the coupon payments to the investor ii) purchase of green electricity certificates or carbon credit/offset certificates or iii) payment to a research institute or a non-governmental organization.
- Reporting** Shui On Land commits to report on an annual basis on its performance on the KPI in its annual report or its annual standalone Sustainable Development Report or in a separate bond-level report which will be published annually on its website. SOL commits to disclose relevant information that affect the KPI performance, including verification assurance reports and any other information enabling investors to monitor progress against SPT as well as analysis of the Company’s KPI and SPT. The reporting commitments are aligned with the SLBP.
- Verification** Shui On Land commits to have external limited/ reasonable assurance conducted on its KPI performance at the communicated SPT deadline, which is aligned with market expectations.

<b>Evaluation Date</b>	June 17, 2021
<b>Issuer Location</b>	Shanghai, China

The SPT contribute to the following SDGs:



### Overview of KPI and SPT

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
Scope 1 and 2 GHG emissions intensity (kgCO <sub>2</sub> /m <sup>2</sup> )	2019	Reduction of Scope 1 and 2 GHG emissions intensity by 25% by 2024 from a 2019 baseline.	Strong	Ambitious

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## Scope of Work and Limitations

Shui On Land has engaged Sustainalytics to review the SLB Framework and provide an opinion on the alignment of the bonds with the Sustainability-Linked Bond Principles (SLBP).<sup>1</sup>

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent<sup>2</sup> opinion on the alignment of the reviewed SLB Framework with the Sustainability-Linked Bond Principles 2020, as administered by ICMA.

As part of this engagement, Sustainalytics exchanges information with various members of Shui On Land's management team to understand the sustainability impact of their business processes and SPT, as well as reporting and verification processes of aspects of the SLB Framework. Shui On Land's representatives have confirmed that:

- (1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public and non-public information. This document contains Sustainalytics' opinion of the Bond Framework and should be read in conjunction with the Bond Documents. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Shui On Land. 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 SPT of KPI but does not measure the KPIs' performance. The measurement and reporting of the KPI is the responsibility of the Bond guarantor and issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Shui On Land has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks<sup>3</sup> against which targets were set;
- (2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SLBs or the materiality of the KPI.

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<sup>1</sup> The Sustainability Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-100620.pdf>

<sup>2</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.

<sup>3</sup> Benchmarks refers to science based benchmarks

## Introduction

Shui On Land Limited (“SOL”, or the “Company”) is a Chinese property development company which engages in the development, sale, leasing, management and long-term ownership of a wide range of properties including residential, office, retail, entertainment and cultural. As of 31 December 2020, the Company had 11 projects in various stages of development and 2 projects under management in prime locations of major cities, with a landbank of 8.6 million sqm (6.4 million sqm of leasable and saleable gross floor area (GFA), and 2.2 million sqm of clubhouses, car parking spaces and other facilities). Headquartered in Shanghai, China, SOL was established in 2004 and is listed on the Hong Kong Stock Exchange and is part of the HSCI Composite Industry Index - Properties & Construction.

SOL or a special purpose vehicle established by SOL (“Shui On Development (Holding) Limited”) intend to issue Sustainability-Linked Bonds (SLB) where the financial penalty of the bond is tied to the achievement of the Sustainability Performance Target for one KPI related to decrease in Scope 1 and 2 GHG emissions intensity, and the penalty is equal to the step up in the coupon rate.

SOL has engaged Sustainalytics to review the SLB Framework and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles (SLBP).<sup>4</sup>

The KPI and SPT used by SOL are defined in Tables 1 and 2 below.

**Table 1: KPI Definitions**

KPI	Definition
Scope 1 and 2 GHG emissions intensity (kgCO <sub>2</sub> /m <sup>2</sup> ).	<p>The KPI is defined as the Scope 1 and 2 emission intensity of assets that are wholly or partially owned and operated by SOL for at least one year.</p> <p>Emissions intensity is calculated as follows: kgCO<sub>2</sub>/m<sup>2</sup></p> <p>Emission intensity calculation includes direct greenhouse gas emissions from buildings owned or controlled by SOL (Scope 1) and greenhouse gas emissions from the electricity, heat or steam purchased from third parties (Scope 2).</p> <p>SOL follows GHG Protocol in calculating the Company's Scope 1 and 2 emissions.<sup>7</sup></p>

**Table 2: SPT and Past Performance**

KPI	2011	2012	2013	2014	2015	2016	2017	2018	2019 baseline	2020	SPT 2024
Scope 1 and 2 GHG emissions intensity (kgCO <sub>2</sub> /m <sup>2</sup> )	91.06	85.33	89.74	80.35	75.33	67.79	65.19	64.60	62.60	52.91	46.95

<sup>4</sup> The Sustainability Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Alignment of Shui On Land Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the Sustainability-Linked Bond Framework align with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP).



#### Selection of Key Performance Indicator (KPI)

##### Relevance and Materiality of KPI

Sustainalytics in its assessment of materiality and relevance considers i) whether an indicator speaks to a material impact of the issuer business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

In 2019, SOL conducted a materiality assessment where emissions management and climate change mitigation and adaptation were identified as material environmental issues for the Company and a focal point of SOL's sustainability strategy. In the 2020 annual report, Shui On Land stated its record of consideration of GHG emissions as a material environmental concern for the Company since 2011, when the Company started tracking and reporting on its emissions intensity figures.<sup>5</sup>

SOL has clarified that the emissions from the assets covered by KPI account for approximately 100% of the Company's total Scope 1 and 2 GHG emissions. Additionally, Scope 1 and 2 emissions of the Company account for 27% of the total emissions. Sustainalytics notes that, while the KPI covers a significant portion of the Company's carbon footprint that can be controlled by the Company, it does not include its Scope 3 emissions, which include embodied carbon associated with construction materials and emissions from downstream leased assets. Sustainalytics recognizes the importance of reducing Scope 3 emissions, and notes that SOL has started an engagement process with its tenants and other stakeholders to reduce its Scope 3 emissions.

##### KPI Characteristics

Sustainalytics in its assessment of the KPI characteristics considers i) whether a clear and consistent methodology is used, ii) whether the issuer follows an externally recognized definition, iii) whether the KPI are a direct measure of the performance of the issuer on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.<sup>6</sup>

Sustainalytics considers SOL's definition and methodology to calculate KPI performance to be clear and consistent based on the Company's historical reporting on the KPI and the KPI's alignment with the GHG Protocol.<sup>7</sup> This approach is considered an industry standard and supports benchmarking against external emission reduction trajectories. The KPI is also directly linked to the performance of the issuer regarding the material climate impact.

<sup>5</sup> Shui On Land, "Annual report, (2020)", at: [https://www.shuionland.com/static/docs/company-presentation/SOL%20AR2020\\_ENG%20Full%20Book\\_Upload\\_20210420.pdf](https://www.shuionland.com/static/docs/company-presentation/SOL%20AR2020_ENG%20Full%20Book_Upload_20210420.pdf)

<sup>6</sup> External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

<sup>7</sup> The Greenhouse Gas Protocol, "A Corporate Accounting and Reporting Standard revised edition", at: <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

**Overall Assessment**

Sustainalytics considers the KPI to be strong given that, while Scope 3 emissions are not covered, the KPI nonetheless directly measures nearly all emissions that can be controlled by the Company, and that it can be benchmarked.

<b>Scope 1 and 2 GHG emissions intensity (kgCO<sub>2</sub> / m<sup>2</sup>).</b>	Not Aligned	Adequate	<b>Strong</b>	Very strong
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**Calibration of Sustainability Performance Target (SPT)**

**Alignment with Issuer’s Sustainability Strategy**

SOL has set the following SPT for its KPI:

- Reduction of Scope 1 and 2 GHG emissions intensity by 25% by 2024, from a 2019 baseline.

Sustainalytics considers the SPT to be aligned with SOL’s sustainability strategy (please refer to Section 2 for analysis of the credibility of SOL’s sustainability strategy).

SOL has a track record of environmental stewardship under its sustainability and governance structures as the Company started tracking carbon emissions intensity in 2011 and has already achieved a 41% reduction from 2011 to 2020.<sup>5</sup> In March 2021, the Company became the first China-based company in the real estate sector to commit to the science-based targets initiative (SBTi) and will set targets in line with meeting the goals of the Paris Agreement to limit global warming to well-below 2°C. Sustainalytics is of the opinion that Shui On Land’s overall sustainability strategy will support achievement of the set SPT.

**Strategy to Achieve the SPT**

SOL intends to achieve the SPT through the following strategy:

SOL intends to invest in energy efficiency improvements and renewable energy procurement to reduce its carbon emission intensity from wholly or partially owned and operated real estate assets. By December 2022, SOL intends to reach 10% of electricity consumption from renewable energy. SOL aims to reduce its energy intensity by approximately 3% annually by adopting a suit of energy efficiency interventions including installation of LED and smart lighting systems, replacing mechanical equipment with high energy-efficiency alternatives, adopting heating, ventilation and air conditioning (HVAC) control strategy, energy efficiency building design and renovations.

**Ambitiousness, Baseline and Benchmarks**

To determine the ambitiousness of the SPT, Sustainalytics considers whether i) the SPT goes beyond business-as-usual trajectory, ii) how the SPT compares to targets set by peers, iii) and how the SPT compares against the Scope 1 and 2 emissions from buildings as provided by IEA ETP 2017.

SOL has set the baseline for the SPT at 2019 instead of the latest 2020 data, to normalize the effects of the COVID-19 pandemic on the Company’s business and operations. The Company considers the 2019 baseline data as more reflective of the long-term trend and Sustainalytics notes that the 2019 baseline is also in line with historical average, at approximately the same with the average SPT data between 2017 and 2020.

To achieve the SPT, the Company commits to reduce its Scope 1 and 2 emissions by an implied average annual rate of 5.6% per year between 2019 and 2024, which is above the historical rate of emissions reduction of 4.6% between 2011 and 2020.<sup>8</sup>

<sup>8</sup> Historical Scope 1 and 2 emissions for SOL in (kgCO<sub>2</sub>) are: 2011 (91.06), 2012 (85.33), 2013 (89.74), 2014 (80.35), 2015 (75.33), 2016 (67.79), 2017 (65.19), 2018 (64.60), 2019 (62.60), 2020 (52.91)

For the comparison against IEA ETP 2017 trajectory, Sustainalytics applied the calculation methodology proposed by Science-Based Target initiative, using the convergence principle and assessment methodology in its Financial Sector Science-Based Targets Guidance.<sup>9</sup> According to Sustainalytics’ assessment, the SPT is consistent with the well-below 2 degrees scenario by 2050. The Company has also committed to the SBTi’s well-below 2 degrees scenario but it is not yet verified.

The SPT compares favorably against sub-industry peers, the majority of whom have not yet set any decarbonization targets for their Scope 1 and 2 emissions. SOL is also the first China-based real estate issuer to commit to the well-below 2-degree scenario by the SBTi.

**Overall Assessment**

Sustainalytics considers the SPT to align with SOL’s sustainability strategy and considers the SPT to be ambitious given that it presents an improvement compared to past performance, exceeds peer performance/targets and aligns with a well-below-2-degree climate scenario.

Reduction of Scope 1 and 2 GHG emissions intensity per square meter by 25% by 2024 from a 2019 baseline.	Not Aligned	Moderately Ambitious	<b>Ambitious</b>	Highly Ambitious
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**Bond Characteristics**

Shui On Land has disclosed that sustainability-linked bonds issued against the SLB Framework will be subject to a penalty for not achieving the SPT by the relevant target observation date. The applicable penalty will reference the coupon rate, but the actual penalty charge will be settled in one of the following three ways: i) a step-up of 0.25% in coupon payments to the investor applicable to the relevant bond from the first day of the next interest period immediately following the target observation date until maturity of the bond, ii) purchase of Green Electricity Certificates or Carbon Credit/Offset Certificates in an amount equaling the step up of 0.25% in the coupon rate, or iii) Payment to a research institute or NGO of international standing contributing to research in the fields of climate research or climate change mitigation equaling the step up of 0.25% in the coupon rate. More details on the penalty provisions will be specified in the relevant documentation of each specific SLB transaction.

Regarding the purchase of Green Electricity Certificates or Carbon Credit/Offset Certificates, SOL has clarified to Sustainalytics that the Company intends to use the Gold Standard,<sup>10</sup> which Sustainalytics considers to be aligned with market practice.

For payments to a research institute or NGO, SOL has clarified that the Company has not identified the NGOs and research institutions to be supported. Sustainalytics encourages SOL to ensure transparency and provide disclosure with respect to the selected organizations and research institutions.

If there is a material change to SOL’s business or the composition of its property portfolio (such as divestments, corporate restructuring) the KPI or SPT may change to reflect the new context. SOL commits to communicate on such changes through public announcements.



**Reporting**

SOL commits to report on an annual basis on its performance on the KPI and expects to include the relevant figures in the Annual Report or in a standalone Sustainable Development Report, or in a separate bond-level

<sup>9</sup> SBTi, “Financial Sector Science-Based Targets Guidance”, (2020), at: <https://sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance-Pilot-Version.pdf>. The Financial Sector Science-Based Targets Guidance document by the SBTi is still in consultation phase.

<sup>10</sup> Gold Standard, read more at: <https://www.goldstandard.org/>

report which will be published annually on the Company website until there are no Sustainability-Linked Bonds outstanding. Such disclosure may include the following information:

- Up-to-date information on the performance of the selected KPI, including baselines where relevant.
- Verification assurance report outlining the KPI performance against the SPT and the relevant impact if any on the bond's financial characteristics.
- Any information which the Company considers relevant towards enabling investors to monitor progress against SPT as well as analysis of the Company's KPI and SPT.

The reporting commitments are aligned with the SLB Principles.



## Verification

SOL commits to having an external verifier provide limited / reasonable assurance on the published KPI performance figures for each fiscal year/ on the KPI performance at the SPT deadline, which is aligned with the SLB Principles on verification.

## Section 2: Assessment of SOL's Sustainability Strategy

### Credibility of SOL Sustainability Strategy

According to Sustainalytics' ESG rating, SOL is considered an average performer on ESG issues compared to its industry peers. The analysis by Sustainalytics is based on SOL's overall performance in environmental, governance and social issues.<sup>11</sup> SOL has a Sustainability Committee which directly monitors and guides the Company's overall sustainability performance and assists in raising the sustainability awareness of employees and stakeholders.

In 2019, SOL announced the development and implementation of its "5C Sustainable Development Strategy" (5C Strategy), which is focused on five pillars: (i) clean, (ii) culture, (iii) community, (iv) care and (v) corporate governance.<sup>12</sup> The 5C Strategy aims to define the Company's pathway toward a sustainable development strategy to 2030 and beyond,<sup>13</sup> and is aligned with the Chinese government pledge to become carbon neutral by 2060.<sup>13</sup> Within its "clean" pillar, SOL defines transition towards carbon neutrality by 2030 as a one of its priorities.<sup>14</sup>

In 2021, SOL introduced a Green Pledge to encourage its retail tenants to reduce food packaging and food waste and promote plant-based and healthy food options. The Pledge's key actions initiatives focus on: (i) replacing non-degradable single-use plastics with more sustainable options and reducing the use of disposable tableware, (ii) advocate for sustainable food systems by increasing vegetarian menu offering, procurement of traceable raw materials, and (iii) reducing food waste.<sup>15</sup>

Sustainalytics considers SOL to have a strong sustainability strategy and considers that the SLBs will further support the SOL sustainability strategy.

### SOL's Environmental and Social Risk Management

Overall, according to Sustainalytics' ESG Risk Rating, the Company's overall management of material ESG issues is considered to be average. Sustainalytics also recognizes that while the targets defined by SOL are impactful, it is acknowledged that achieving the SPT and operating in the real estate development industry in general bears environmental and social risks related

<sup>11</sup> This assessment has been derived from Sustainalytics' ESG Rating.

<sup>12</sup> Shui on Land, "5C Sustainable Development Strategy", at: <https://www.shuionland.com/en-us/csr/CorporateSustainability>

<sup>13</sup> Shui on Land, "Sustainable Development Overview", at: <https://www.shuionland.com/en-us/csr/CorporateSocialResponsibility>

<sup>14</sup> Shui on Land, "Clean", at: <https://www.shuionland.com/en-us/csr/GreenFinance>

<sup>15</sup> The Shui On Land's Sustainability-Linked Bond Framework is available on Shui On Land's website at: <https://www.shuionland.com/en-us/csr/GreenCommunity>

to occupational health and safety, land use and biodiversity issues associated with large-scale infrastructure development, emissions, effluents, and waste generated in construction.

In the following bullets Sustainalytics comments on SOL's ability to mitigate such potential risks.

- As part of China's Environmental Impact Assessment Act, 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 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>16,17</sup>
- The Company strictly monitors its contractors' health, safety and environment (HSE) systems, environmental performance, employee welfare, occupational health and safety, environmental pollution prevention, and waste reduction measures.<sup>18</sup>
- SOL has developed its Green Building Construction Planning, which is based on the Green Construction Code for Building Projects (GB/ T50905-2014), to control wastewater, exhaust gas, solid waste generated by contractors during construction, and construction materials.<sup>18</sup>

Overall, Sustainalytics considers that SOL has strong management programs and policies to mitigate risks that could emerge from the Company's real estate activities.

### Section 3: Impact of the SPT Chosen

More than 55% of the world's population currently lives in urban areas and this figure is expected to increase to 68% by 2050, with Asia and Africa accounting for around 90% of the increase.<sup>19</sup> More than 51% of the Chinese population already lives in urban areas and the demand for urban housing is set to increase, with McKinsey estimating that China would build between 20,000-50,000 residential buildings of more than 30 floors by 2025.<sup>20</sup>

In 2020, buildings accounted for 30% of global energy consumption and 30% of energy-related CO<sub>2</sub> emissions.<sup>21</sup> With regards to energy efficiency, the World Green Building Council estimates that carbon emissions related to heating, cooling and lighting buildings account for 28% of global carbon emissions.<sup>22</sup> As per the IEA, CO<sub>2</sub> emissions from the building sector would need to decline by 50% by 2030, to achieve global warming levels of below 1.5°C,<sup>23</sup> in line with the Paris climate goal.<sup>24</sup>

China is the largest consumer of energy in the world and makes up 24% of the global energy consumption and 28.5% of total emissions.<sup>25,26</sup> Specifically, the building sector in China accounts for 20% of the nation's energy consumption, and 25% of its

<sup>16</sup> Nankai University, "Environmental Impact Assessment in China", at: [https://www.researchgate.net/publication/268503532\\_Environmental\\_Impact\\_Assessment\\_in\\_China](https://www.researchgate.net/publication/268503532_Environmental_Impact_Assessment_in_China) health and safety.

<sup>17</sup> ELAW, "Law of the People's Republic of China on Evaluation of Environmental Effects", at: <https://www.elaw.org/eialaw/china>

<sup>18</sup> Shui on Land, "Shui On Land Limited Sustainable Development Report 2019", (2020), at: [https://www.shuionland.com/static/files/EN\\_SOL%20SD%20Report%202019.pdf](https://www.shuionland.com/static/files/EN_SOL%20SD%20Report%202019.pdf)

<sup>19</sup> Rainmaking, "55% of the world's population currently lives in urban areas", (2020), at: <https://rainmaking.io/article/55-of-the-worlds-population-currently-lives-in-urban-areas/>

<sup>20</sup> The U.S. Consulate General Shanghai Commercial Service, "China's Growing Green Building Industry", at: [https://2016.export.gov/china/build/groups/public/@eg\\_cn/documents/webcontent/eg\\_cn\\_088721.pdf](https://2016.export.gov/china/build/groups/public/@eg_cn/documents/webcontent/eg_cn_088721.pdf)

<sup>21</sup> International Energy Agency, "World Energy Output Special Report: Buildings, (2020)", at: [https://iea.blob.core.windows.net/assets/c3de5e13-26e8-4e52-8a67-b97aba17f0a2/Sustainable\\_Recovery.pdf](https://iea.blob.core.windows.net/assets/c3de5e13-26e8-4e52-8a67-b97aba17f0a2/Sustainable_Recovery.pdf)

<sup>22</sup> World Green Building Council, "New report: the building and construction sector can reach net zero carbon emissions by 2050", at: <https://www.worldgbc.org/news-media/WorldGBC-embodied-carbon-report-published>

<sup>23</sup> International Energy Agency, "Tracking Buildings 2020", at: <https://www.iea.org/reports/tracking-buildings-2020/building-envelopes>

<sup>24</sup> Paris Agreement, 2015 at: [https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf)

<sup>25</sup> International Energy Agency, "Global Energy Review 2020", at: [https://iea.blob.core.windows.net/assets/7e802f6a-0b30-4714-abb1-46f21a7a9530/Global\\_Energy\\_Review\\_2020.pdf](https://iea.blob.core.windows.net/assets/7e802f6a-0b30-4714-abb1-46f21a7a9530/Global_Energy_Review_2020.pdf)

<sup>26</sup> ChinaPower, "How is China Managing its Greenhouse Gas Emissions?", (2020), at: <https://chinapower.csis.org/china-greenhouse-gasemissions/#:~:text=Greenhouse%20gas%20emissions%20from%20human,carbon%20dioxide%20emissions%20in%202018>

GHG emissions.<sup>27</sup> Between 2010 and 2020, China contributed approximately 50% to the global growth in construction,<sup>28</sup> and the energy consumed by the nation’s building sector during this period increased by around 13%.<sup>29</sup>

In its efforts to combat climate change, the Chinese government set a target of becoming carbon neutral by 2060. Boston Consulting Group (BCG) estimates that China would need to reduce its carbon emissions by 75%-85% by 2050 to achieve its carbon neutrality target. Additionally, BCG has identified that the energy efficiency and decarbonization of the building sector in China play an important role in achieving the nation’s climate targets.<sup>30</sup> In line with the carbon neutrality target, the National People’s Congress (NPC) has approved its 14th five-year plan (FYP) for economic and social development. The plan includes commitments to reducing the nation’s energy consumption per unit of GDP by 13.5%, and its CO<sub>2</sub> emissions per unit of GDP by 18% – by 2025 relative to 2021. It also proposes to increase the share of non-fossil fuel energy in total energy consumption to approximately 20% by 2025.<sup>31</sup>

In this context, Sustainalytics expects SOL’s investment in achieving a 25% reduction in its Scope 1 and Scope 2 GHG emissions intensity per square meter of its real estate portfolio to contribute towards the Paris Agreement and China’s targets for reduction in both energy consumption and emissions, while decarbonizing the building sector.

**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 sustainability linked bonds advance the following SDG goals and targets:

KPI	SDG	SDG Target
Scope 1 and 2 GHG emissions intensity per square meter	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
	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

**Conclusion**

Shui On Land intends to issue Sustainability-Linked Bonds which will tie the coupon rate to the achievements of the following SPT:

- Reduction of Scope 1 and 2 GHG emissions intensity per square meter by 25% by 2024 from a 2019 baseline.

Sustainalytics considers the KPI chosen to be strong based on it representing the majority of the carbon footprint from the Company’s own operations, and its ability to be benchmarked. The SPT is considered to be ambitious based on a material improvement of the performance of the Company in terms of GHG emissions intensity per square meter, its leadership among sub-industry peers and its alignment with a well-below-2-degree climate scenario.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Shui On Land’s SLB Framework to be in alignment with the five core components of the SLBP and the prospective of achievement of the SPTs to be impactful.

<sup>27</sup> C40 China Buildings Programme, “Constructing a New, Low-Carbon Future”, (2018) at: <https://www.c40.org/researches/constructing-a-new-low-carbon-future-china>

<sup>28</sup> CarbonBrief, “‘Construction fever’ responsible for one fifth of China’s CO<sub>2</sub> emissions”, (2020), at: <https://www.carbonbrief.org/construction-fever-responsible-for-one-fifth-of-chinas-co2-emissions>

<sup>29</sup> International Energy Agency, “Buildings – A source of enormous untapped efficiency potential”, at: <https://www.iea.org/topics/buildings>

<sup>30</sup> Boston Consulting Group, “How China Can Achieve Carbon Neutrality by 2060”, (2020) at: <https://www.bcg.com/publications/2020/how-china-can-achieve-carbon-neutrality-by-2060>

<sup>31</sup> The State Council of China, “14<sup>th</sup> five-year plan, (2021)”, at: <http://www.npc.gov.cn/npc/kgfb/202103/bf13037b5d2d4a398652ed253cea8eb1.shtml>

## Appendix 1: Sustainability-Linked Bonds - External Review Form

### Section 1. Basic Information

**Issuer name:** Shui On Land

**Sustainability-Linked Bond ISIN:**

**Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3):**  
Sustainalytics

**Completion date of second party opinion pre-issuance:** June 18, 2021

**Independent External Review provider's name for post-issuance verification (section 4):**

**Completion date of post issuance verification:**

**At the launch of the bond, the structure is:**

- a step-up structure  a variable redemption structure

### Section 2. Pre-Issuance Review

#### 2-1 SCOPE OF REVIEW

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

The review:

- assessed all the following elements (complete review)  only some of them (partial review):

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Selection of Key Performance Indicators (KPIs)           | <input checked="" type="checkbox"/> Bond characteristics ( <i>acknowledgment of</i> ) |
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting   |
| <input checked="" type="checkbox"/> Verification   |   |

- and confirmed their alignment with the SLBP.

#### 2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification  |
| <input type="checkbox"/> Verification                    | <input type="checkbox"/> Scoring/Rating |

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

## 2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

### Section 3. Detailed pre-issuance 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.

#### 3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

**Overall comment on the section (if applicable):** Shui On Land Sustainability-Linked Bond Framework includes one KPI: Scope 1 and 2 GHG emissions intensity (see Table 1). Based on the consideration for the materiality of the KPI, its relevance to Shui On Land's business, the scope of its applicability, and ability to be benchmarked, Sustainalytics considers the KPI to be strong.

##### List of selected KPIs:

- ✓ Scope 1 and 2 GHG emissions intensity per square meter

##### Definition, Scope, and parameters

- Clear definition of each selected KPIs
- Clear calculation methodology
- Other (please specify):

##### Relevance, robustness, and reliability of the selected KPIs

- Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy.
- Evidence that the KPIs are externally verifiable
- Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis
- Evidence that the KPIs can be benchmarked
- Other (please specify):

#### 3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

**Overall comment on the section (if applicable):** Sustainalytics considers the SPT to be aligned with the Issuer's sustainability strategy. Sustainalytics notes that the SPT i) goes beyond business-as-usual, ii) exceeds peer performance/targets and iii) aligns with a well-below2-degree climate scenario. As such, Sustainalytics is of the opinion that the SPT is ambitious and demonstrates industry leadership.

**Rationale and level of ambition**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement                                  | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer's sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline                 |
|  | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

**Benchmarking approach**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Issuer own performance   | <input checked="" type="checkbox"/> Issuer's peers        |
| <input checked="" type="checkbox"/> reference to the science | <input type="checkbox"/> Other ( <i>please specify</i> ): |

**Additional disclosure**

- |  |  |
|--|--|
| <input type="checkbox"/> potential recalculations or adjustments description                       | <input checked="" type="checkbox"/> issuer's strategy to achieve description |
| <input type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other ( <i>please specify</i> ):                    |

**3-3 BOND CHARACTERISTICS**

**Overall comment on the section (*if applicable*):** Shui On Land will link the bond's financial/ structural characteristics to the achievement of the SPT, where a failure to achieve the SPT at target observation date will trigger a penalty. The penalty will reference the coupon rate and an equivalent amount to the coupon rate step-up will be settled in one of the following ways: i) increase in the coupon payments to the investor ii) purchase of green electricity certificates or carbon credit/offset certificates or iii) payment to a research institute or a non-governmental organization.

**Financial impact:**

- |  |
|--|
| <input checked="" type="checkbox"/> variation of the coupon          |
| <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): |

**Structural characteristic:**

- |   |
|---|
| <input type="checkbox"/> Other ( <i>please specify</i> ): |
|---|

**3-4 REPORTING**

**Overall comment on the section (*if applicable*):** Shui On Land commits to report on an annual basis on its performance on the KPI in its annual report or its annual standalone Sustainable Development Report which will be published on its website. SOL and commits to disclose relevant information that affect the KPI performance, including verification assurance reports and any other information enabling investors to monitor progress against SPT as well as analysis of the Company's KPI and SPT. The reporting commitments are aligned with the SLBP.

**Information reported:**

- performance of the selected KPIs
- level of ambition of the SPTs
- verification assurance report
- Other *(please specify)*:

**Frequency:**

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

**Means of Disclosure**

- Information published in financial report
- Information published in ad hoc documents
- Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review)*:
- Information published in sustainability report
- Other *(please specify)*:

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

**Level of Assurance on Reporting**

- limited assurance
- reasonable assurance
- Other *(please specify)*:

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

**Section 4. Post-issuance verification**

**Overall comment on the section *(if applicable)*:** Shui On Land commits to have external limited/ reasonable assurance conducted on its KPI performance at the communicated SPT deadline, which is aligned with market expectations.

**Information reported:**

- limited assurance
- reasonable assurance
- Other *(please specify)*:

**Frequency:**

- Annual
- Semi-annual

Other (*please specify*):

**Material change:**

Perimeter  
 SPTs calibration

KPI methodology

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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data 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 17 offices globally, Sustainalytics has more than 800 staff members, including more than 300 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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**Named**  
 2015: Best SRI or Green Bond Research or Rating Firm  
 2017, 2018, 2019: Most Impressive Second Opinion Provider

