

# Second-Party Opinion

## Hysan Green Finance Framework

### Evaluation Summary

Sustainalytics is of the opinion that the Hysan Green Finance Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018 and Green Loan Principles. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds namely as (i) Green Buildings, (ii) Energy Efficiency, (iii) Waste Management and Recycling and (iv) Climate Change Adaptation are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that the eligible projects will improve the carbon footprint and environmental performance of Hysan's building under management. Sustainalytics views that the eligible activities will contribute to advance SDGs 7, 11, 12 13 and 17.



**PROJECT EVALUATION / SELECTION** Hysan has a two-step project evaluation and selection process. Cross departmental representatives from Hysan's technical services, property management, sustainability department and treasury department will form a working group selecting an initial set of eligible projects, which are to be validated and approved by Hysan's Sustainability Committee including the senior management, which is aligning with market practice.



**MANAGEMENT OF PROCEEDS** Hysan's processes for management of proceeds is aligning with market practice. Hysan will record and earmark each green funding transaction ('GFT') separately in its corporate general funding accounts. Hysan will maintain a register to track the use of the green proceeds, which includes information of the type of funding transaction and the allocation of the use of proceeds. Pending full allocation, any unallocated proceeds will be held in line with Hysan's normal liquidity management policy.



**REPORTING** Hysan commits to report to investors annually on the allocation of proceeds on its website, and as part of Hysan's Corporate Responsibility Reports. The (i) allocation report will include the type of funding, the name and description of Eligible Projects, as well as the remaining balance of unallocated proceeds. With regards to the (ii) impact report, Hysan has committed to disclose data on relevant KPIs for each eligible category, such as the amount of energy saved (in kWh), CO<sub>2</sub>eq avoided, the amount of waste recycled (in kg), the amount of wastewater reused (in m<sup>3</sup>), area of rooftop farming, and green roofs and green walls on its buildings (in m<sup>2</sup>). Sustainalytics views the scope and granularity of Hysan's impact reporting to be in line with current market practice.



Evaluation date	20 December 2018
Issuer Location	Hong Kong, China

### Report Sections

Introduction.....	2
Sustainalytics' Opinion .....	3
Appendices .....	7

For inquiries, contact the Sustainable Finance Solutions project team:

**Lili Hocke (Amsterdam)**  
Project Lead  
lili.hocke@sustainalytics.com  
(+31) 20 205 00 40

**Nicholas Gandolfo (Singapore)**  
Client Relations  
susfinance.apac@sustainalytics.com  
(+65) 3157 0314

## Introduction

Hysan is a property investment, management and development company in Hong Kong, with a portfolio of more than 4 million square feet of office, retail and residential properties. Hysan mainly operates in downtown Hong Kong, in the Causeway Bay neighbourhood. Hysan was founded in 1970 and is headquartered on the Hong Kong Island, China.

Hysan has developed the Hysan Green Finance Framework (the "Framework") under which it is considering to issue green bonds and green loans and use the proceeds to finance or refinance, in whole or in part, existing and/or future projects that improve the carbon footprint and environmental performance of its buildings under management. The Framework defines eligible criteria in four areas:

1. Green Buildings
2. Energy Efficiency
3. Waste Management and Recycling
4. Climate Change Adaptation

Hysan engaged Sustainalytics to review the Hysan Green Finance Framework and provide a second-party opinion on the alignment of the green bond with the Green Bond Principles 2018 (the "GBP"), as administered by the International Capital Market Association (the "ICMA"),<sup>1</sup> and on the alignment of the green loans with the Green Loan Principles (the 'GLP'), as administered by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA)<sup>2</sup> and the Loan Syndications and Trading Association (LSTA) as well as the Framework's environmental credentials. This Framework has been published in a separate document.<sup>3</sup>

As part of this engagement, Sustainalytics held conversations with various members of Hysan's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of Hysan's green bond and green loan. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Hysan Green Finance Framework and should be read in conjunction with that Framework.

---

<sup>1</sup> ICMA's Green Bond Principles 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> LMA's Green Loan Principles 2018 [https://www.lma.eu.com/application/files/9115/4452/5458/741\\_LM\\_Green\\_Loan\\_Principles\\_Booklet\\_V8.pdf](https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf)

<sup>3</sup> <http://www.hysan.com.hk>

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Hysan Green Finance Framework

#### Summary

Sustainalytics is of the opinion that the Hysan Green Finance Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. Sustainalytics highlights the following elements of Hysan's green finance framework:

- Use of Proceeds:
  - The eligible use of proceeds categories, namely (i) Green Buildings, (ii) Energy Efficiency, (iii) Waste Management and Recycling and (iv) Climate Change Adaptation are recognized by the Green Bond Principles and Green Loan Principles as project categories having positive environmental benefits. Sustainalytics considers that Hysan's investments will help increasing the resource efficiency of the buildings under its management, thus positively contributing to reduce GHG emissions, in line with Hong Kong's climate policies. In addition, Sustainalytics considers that Hysan's investments into green roofs, rooftop farming and green walls (Climate Change adaptation) will contribute to reduce the urban heat effect of its buildings in densely built cities.<sup>4</sup>
  - Sustainalytics highlights that Hysan's green building criterion is based on recognized third-party certification standards, namely LEED Gold or above, BEAM Plus Gold or above, as well as the Chinese Green Building Evaluation Label (2 Stars). Sustainalytics has conducted an evaluation of these certifications and views Hysan's focus on above average certification levels LEED and BEAM as aligning with current market expectations and rendering meaningful environmental benefits, see Appendix 1 and 2 for information on the green building certifications and example projects. In addition, Hysan set a minimum threshold of 10% for energy efficiency improvements.
  - Besides the financing of projects, Hysan may use part of the proceeds to finance the acquisition of buildings and companies that fall in the eligible categories, which Sustainalytics considers contributing to the companies green building portfolio and advancing its sustainability strategy.
  - Hysan does not disclose a look-back period but intends to report on the transaction date. Sustainalytics recommends to also report on the amount of financing dedicated to existing or new projects.
- Project Selection Process:
  - Hysan's process for the management of proceeds is aligned with market practices. Hysan has established a two-step project evaluation and selection process in which a corporate working group with cross departmental representation from Hysan technical service, property management, sustainability department and treasury department make a pre-selection of eligible projects. The projects are subsequently to be validated and approved by Hysan's sustainability committee.
- Management of Proceeds:
  - The company will maintain a register of the earmarked green finance transactions containing the name of the issuer, borrower, transaction date, principal amount of proceeds, maturity date and interest or coupon. The register will also disclose information on the allocation of the use of proceeds such as: the name and description of eligible project, the amount of green finance transaction allocated to each project, the unallocated proceeds and/or any other relevant information such as the type of temporary investments for unallocated proceeds. Sustainalytics views this process aligned with market practices.
- Reporting:
  - Hysan commits to report annually on the allocation of the green net proceeds on its website and in Hysan's Corporate Responsibility Reports. The (i) allocation report will comprise information on the type of funding transaction including the name of the issuer/ borrower, transaction date, tranche(s) information, principal amount of proceeds, maturity date and interest. The allocation

<sup>4</sup> See also Hysan Corporate Sustainability Report 2017, p. 5: [http://www.hysan.com.hk/wp-content/uploads/2018/03/e\\_CRR2017\\_E.pdf](http://www.hysan.com.hk/wp-content/uploads/2018/03/e_CRR2017_E.pdf)

report will also disclose the amount of proceeds allocated to each project and the name and description of the project, as well as overall amount of unallocated proceeds. Hysan will also disclose (ii) an impact report including KPIs for each eligible category, including the amount of energy saved (in kWh), the CO<sub>2</sub>eq avoided, the number and type of green buildings certification, the amount of recycled waste (in kg), the number of recycling waste facilities financed, the amount of waste water reduced (in m<sup>3</sup>) and the amount of rooftop farming, green roofs, green walls included in its buildings (in m<sup>2</sup>). Sustainalytics views the scope and granularity of Hysan's allocation and impact reporting aligned with regional and international market expectations.

### **Alignment with Green Bond Principles 2018 and Green Loan Principles 2018**

Sustainalytics has determined that the Hysan's green finance framework aligns to the four core components of the Green Bond Principles 2018 and Green Loan Principles 2018. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

## **Section 2: Sustainability Performance of the Hysan**

### **Contribution of framework to Hysan's sustainability strategy**

Hysan defines its business activities to contributing towards creating a sustainable community through resource management and minimizing negative ecological and social impacts.<sup>5</sup>

Within its Environmental Policy,<sup>6</sup> the company commits to measuring and reporting its carbon reduction activities, promoting waste reduction at source and enhancing green purchasing as well as improving energy efficiency.<sup>7</sup> Even though the company does not disclose its climate-related targets, it does provide insight into its environmental performance. In 2017, Hysan has reduced its energy consumption by more than 11%, using 2005 as a baseline, and lowered its GHG emissions by 0.5% (Scope 1) and 1.9% (Scope 2), compared to 2016 levels.<sup>8</sup> For Hysan's Lee Garden Three commercial building,<sup>9</sup> the company managed to recycle or reuse more than 60% of construction waste. The company also reports on other waste management achievements from 2017, such as food waste recycled, rechargeable batteries recycled and toner/cartridge recycled.<sup>10</sup>

Given Hysan's sustainability strategy, as well as Hysan's sustainability progress reporting, Sustainalytics is of the view that Hysan is well positioned to issue green bonds or obtain green loans and that its green finance transactions will further help the company advance its sustainability vision.

### **Well positioned to address common environmental and social risks associated with the projects**

While Hysan's use of proceeds categories are recognized as impactful, Sustainalytics recognizes that the eligible projects bear potential social and environmental risks related the environmental impact of land use change and community relations, as well as health and safety of workers in the construction sector.

Hysan has implemented the following measures to mitigate the named risks:

- Hysan's Health and Safety (H&S) Management System includes safety management plans, established reporting lines on the implementation of its H&S Policy and safety training. In addition, the company reports that its demand high levels of health and safety management from its partners and contractors and names as example that for the Lee Garden Three building, two rounds of safety audits were conducted on the safety management system regarding plant and equipment; subcontractors' method statement and safety work procedures' implementation.<sup>11</sup> Moreover, Hysan confirmed that these measures are conducted for all its buildings. Sustainalytics considers these measures contributing the reduction of H&S risks.
- Hysan confirmed to Sustainalytics that it communicates with the local community through regular informal meetings with the Wanchai District Council, reducing risks related to community relations.

<sup>5</sup> Hysan Business of Life; <http://www.hysan.com.hk/sustainability/business-of-life/>

<sup>6</sup> Hysan 2017 Corporate Social Responsibility Report;

<sup>7</sup> Hysan Environment; <http://www.hysan.com.hk/sustainability/environment/>

<sup>8</sup> Hysan 2017 Corporate Social Responsibility Report;

<sup>9</sup> Completed in late 2017, Lee Garden Three is a commercial building in Causeway Bay. <http://www.hysan.com.hk/investment-portfolio/lee-garden-three/>

<sup>10</sup> Hysan 2017 Corporate Social Responsibility Report;

<sup>11</sup> Hysan 2017 Corporate Social Responsibility Report: [http://www.hysan.com.hk/wp-content/uploads/2018/03/e\\_CRR2017\\_E.pdf](http://www.hysan.com.hk/wp-content/uploads/2018/03/e_CRR2017_E.pdf)

- Regarding environmental risks, the Hong Kong EIA Ordinance<sup>12</sup> lays out the type of projects requiring environmental impact assessments (EIA). Hysan confirmed that the eligible projects do not require EIA per EIA Ordinance. In addition, the company commits to comply with all applicable environmental regulation in its Environmental Policy<sup>13</sup> and confirmed to Sustainalytics that its buildings were built on already fully developed grounds.

### Section 3: Impact of Use of Proceeds

All four use of proceeds categories are recognized as impactful by GBP. Sustainalytics has focused on two below where the impact is specifically relevant in local context.

#### **Relevance Green buildings and Energy Efficiency**

Hong Kong committed to lowering its carbon intensity by 50-60% from the 2005 level by 2020,<sup>14</sup> and 65% to 70% by 2030 using 2005 as the base.<sup>15</sup> In 2015, electricity generation was the major source of GHG emissions, accounting for 66.5% of total emissions.<sup>16</sup> Moreover, buildings account for around 90% of electricity consumption in Hong Kong, indicating the importance to reduce energy in buildings in the region. Furthermore, the government implemented reforms and programmes, such as the Buildings Energy Efficiency Ordinance, to improve energy efficiency and reduce the GHG emissions<sup>17</sup> and launched partnerships with major commercial and institutional buildings owners<sup>18</sup> to lower buildings' energy consumption by performing energy efficient upgrades.<sup>19</sup>

While Hysan set a minimum threshold of 10% energy efficiency improvements for energy efficiency measures financed by under its green finance framework, Sustainalytics welcomes Hysan's clarification that some of the technologies financed have significantly higher energy savings potential, such as Variable air volume (VAV) which reduces energy consumption by 20% to 60% compared to constant air volume systems.

Given the above, Sustainalytics considers that Hysan's green buildings and energy efficiency projects has the potential to contribute to Hong Kong's climate goals.

#### **Importance of Waste Management**

As Hong Kong's economy is centred around activities and services based that take place in office buildings, waste management, which includes municipal solid waste, food waste and construction waste, represents one of the main environmental issues for the city. While the quantity of solid waste disposed at waste facilities decreased by around 40% in 2016 compared to the 1991 level,<sup>20</sup> only 3% of waste was recycled locally.<sup>21</sup> Within its Hong Kong Blueprint for Sustainable Use of Resources 2013 – 2022 document, the government commits to reducing Hong Kong's per capita municipal solid waste disposal rate from 1.27 kg per day to 1 kg or below by 2017, and further down to 0.8 kg or below by 2022.<sup>22</sup> Hong Kong's 4T programme, a partnerships between the government and building sector, also includes provisions referring to waste reduction and recycling,<sup>23</sup> indicating the importance of waste management in Hong Kong.

Given the above, Sustainalytics is of the opinion that Hysan's projects related to waste recycling will support the city's long-term objectives related to waste management.

<sup>12</sup> Hong Kong Environmental Protection Department: [https://www.epd.gov.hk/eia/english/guid/ordinance/sh2\\_a-c.html](https://www.epd.gov.hk/eia/english/guid/ordinance/sh2_a-c.html)

<sup>13</sup> Hysan Environmental Policy, accessed December 2018, <http://www.hysan.com.hk/sustainability/environment/>

<sup>14</sup> Hong Kong Climate Change Report 2015; <https://www.enb.gov.hk/sites/default/files/pdf/ClimateChangeEng.pdf>

<sup>15</sup> Government of Hong Kong Climate Change; <https://www.gov.hk/en/residents/environment/global/climate.htm>

<sup>16</sup> The Government of the Hong Kong Special Administrative Region, press release, Hong Kong greenhouse gas inventory for 2015 released: <https://www.info.gov.hk/gia/general/201707/10/P2017071000628.htm>

<sup>17</sup> Government of Hong Kong Climate Change; <https://www.gov.hk/en/residents/environment/global/climate.htm>

<sup>18</sup> Government of Hong Kong Climate Change; <https://www.gov.hk/en/residents/environment/global/climate.htm>

<sup>19</sup> Hong Kong Climate Change Report 2015; <https://www.enb.gov.hk/sites/default/files/pdf/ClimateChangeEng.pdf>

<sup>20</sup> Hong Kong Waste Treatment and Disposal Statistics; [https://www.epd.gov.hk/epd/english/environmentinhk/waste/data/stat\\_treat.html](https://www.epd.gov.hk/epd/english/environmentinhk/waste/data/stat_treat.html)

<sup>21</sup> Waste Recycling Statistics; [https://www.wastereduction.gov.hk/en/quickaccess/stat\\_recycle.htm](https://www.wastereduction.gov.hk/en/quickaccess/stat_recycle.htm)

<sup>22</sup> Waste Reduction & Recycling; <https://www.gov.hk/en/residents/environment/waste/wasteredrecyc.htm>

<sup>23</sup> Hong Kong's Climate Action Plan 2030+; <https://www.enb.gov.hk/sites/default/files/pdf/ClimateActionPlanEng.pdf>

## Hysan Green Finance Framework

---

### 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 green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings & Energy Efficiency	7. Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency.
Waste Management and Recycling	11. Sustainable Cities and Communities	11.6 by 2030, reduce the adverse effect per capita environment impact of cities, including by paying special attention to air quality and municipal and other waste management.
	12. Responsible consumption and production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Climate Change Adaptation	13. Climate Action	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

## Conclusion

Hysan has developed the Hysan Green Finance Framework (the "Framework") under which it is considering to issue green bonds and green loans and use the proceeds to finance or refinance existing and/or future projects related to (i) Green Buildings, (ii) Energy Efficiency, (iii) Waste Management and Recycling and (iv) Climate Change Adaptation that improve the carbon footprint and environmental performance of its buildings under management. Sustainalytics has assessed the framework and concluded that it is aligning with the Green Bond Principles 2018 and Green Loan Principles 2018.

Hysan's processes for project selection and evaluation, management of proceeds and reporting are aligning with market practice.

In addition, the company uses recognized third party standards for its green buildings as well as a 10% minimum improvement in energy efficiency for related investments.

Based on the above, Sustainalytics considers Hysan Green Finance Framework to be credible, robust and transparent.

## Appendices

### Appendix 1: Overview of Real Estate Certification Schemes

	LEED <sup>24</sup>	BEAM Plus <sup>25</sup>	Chinese Green Building Evaluation Label (China Three Star) <sup>26</sup>
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	BEAM Society Limited (BSL) developed the Building Environmental Assessment Method ("BEAM"), namely the BEAM Plus assessment - a green building assessment tool tailor-made for the high-rise, high density-built environment of sub-tropical climate in Hong Kong. BEAM Plus assessment is Hong Kong's leading initiative to offer assessments of building sustainability performance, with the Hong Kong Green Building Council being its certification body.	The Chinese 3-Star Green Building Standard is a Certification System used in China for residential and public buildings (including commercial, hotel and government owned) that was introduced in 2006 by MOHURD (Ministry of Housing and Urban-Rural Development).
Certification Levels	Certified Silver Gold Platinum	Bronze Silver Gold Platinum	1-Star 2-Star 3-Star
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>Innovation in Design</li> <li>Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Site Aspects (location and design of building, emissions from the site, site management)</li> <li>• Materials Aspects (selection of materials, efficient use of materials, waste disposal and recycling)</li> <li>• Energy Use (annual CO<sub>2</sub>eq emissions or energy use, energy efficient systems and equipment, energy management)</li> <li>• Water Use (water quality, water conservation, effluent discharges)</li> <li>• Indoor Environmental Quality</li> <li>• Innovations and additions</li> </ul>	<ul style="list-style-type: none"> <li>• Land savings and outdoor environment;</li> <li>• Energy savings and utilisation;</li> <li>• Water savings and utilisation;</li> <li>• Material savings and utilisation;</li> <li>• Indoor environment;</li> <li>• Operations and management.</li> </ul>
Requirements	Prerequisites (independent of level of certification) + Credits with associated points These points are then	Prerequisites for each performance area + Credits with associated points	Prerequisites The system functions on a checklist basis, with 1- Star buildings meeting 26 criteria, 2-Star an

<sup>24</sup> <https://new.usgbc.org/leed><sup>25</sup> <https://www.hkgbc.org.hk/eng/><sup>26</sup> <http://www.gbig.org/collections/14970>

	<p>added together to obtain the LEED level of certification.</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools- /Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Detailed compliance with legal requirements is a prerequisite for the award of credits.</p> <p>For every performance area BEAM prescribes different prerequisites. Every applicable prerequisite in every BEAM category must be achieved for the project to be assessed.</p> <p>Credits are allocated for each performance area, and every area is weighted as per international consensus.<sup>20</sup> The Overall Assessment Grade is determined by the percentage (%) of the applicable credits gained under each performance category and its weighting factor.</p> <p>Verification of compliance with BEAM criteria is done by an independent BEAM assessor.</p>	<p>additional 43 items, and 3-Star on a further 14 items. Criteria and weighting differ for public and residential buildings. In public buildings, more weight is given to energy and material savings, while the standard for residential buildings places greater importance on urban land saving and outdoor environments.</p>
Performance Display			

## Appendix 2: Example Projects

1. Lee Garden One: Final Platinum BEAM Plus (Existing Building);
2. Hysan Place: LEED Platinum;
3. Hysan Place: Platinum BEAM Plus (New Building);
4. Hysan Place: Final Platinum BEAM Plus (Existing Building);
5. Lee Garden Three: Provisional Platinum BEAM Plus (New Building)
6. Lee Garden Three: LEED Gold Pre-Certification
7. Lee Garden Three: 2 Stars China Green Building Label

## Appendix 3: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

**Issuer name:** Hysan Development Company Limited

**Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: *(specify as appropriate)*** Hysan Green Finance Framework

**Review provider's name:** Sustainalytics

**Completion date of this form:** December 2018

**Publication date of review publication: *(where appropriate, specify if it is an update and add reference to earlier relevant review)***

### Section 2. Review overview

#### SCOPE OF REVIEW

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

The review assessed the following elements and confirmed their alignment with the GBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify):</i>                         |  |

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

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Executive Summary above.

### Section 3. Detailed review

## Hysan Green Finance Framework

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible use of proceeds categories, namely (i) Green Buildings, (ii) Energy Efficiency, (iii) Waste Management and Recycling and (iv) Climate Change Adaptation are recognized by the Green Bond Principles and Green Loan Principles as project categories having positive environmental benefits. Sustainalytics considers that Hysan's investments will help increase the resource efficiency of the buildings under its management, thus positively contributing to reduce GHG emissions, in line with Hong Kong's climate policies. In addition, Sustainalytics considers that Hysan's investments into green roofs, rooftop farming and green walls (Climate Change adaptation) will contribute to reduce the urban heat effect of its buildings in densely built cities.

Sustainalytics highlights that Hysan's green building criterion is based on recognized third-party certification standards, namely LEED Gold or above, BEAM Plus Gold or above, as well as the Chinese Green Building Evaluation Label (23 Stars). Sustainalytics has conducted an evaluation of these certifications and views Hysan's focus on above average certification levels LEED and BEAM as aligning with current market expectations and rendering meaningful environmental benefits. In addition, Hysan set a set a minimum threshold of 10% for energy efficiency improvements.

Besides the financing of projects, Hysan may use part of the proceeds to finance the acquisition of buildings and companies that fall in the eligible categories, which Sustainalytics considers contributing to the companies green building portfolio and advancing it sustainability strategy.

Hysan does not disclose a look-back period but intends to report on the transaction date. Sustainalytics recommends to also report on the amount of financing dedicated to existing or new projects.

#### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input type="checkbox"/> Renewable energy  | <input checked="" type="checkbox"/> Energy efficiency  |
| <input checked="" type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation  |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

If applicable please specify the environmental taxonomy, if other than GBPs:

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

## Hysan Green Finance Framework

Hysan's process for the management of proceeds is aligning with market practices. Hysan has established a two-step project evaluation and selection process in which a corporate working group with cross departmental representation from Hysan technical service, property management, sustainability department and treasury department make a pre-selection of eligible projects. The projects are subsequently validated and approved by Hysan's sustainability committee.

### Evaluation and selection

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available       | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The company will maintain a register of the earmarked green finance transactions containing the name of the issuer, borrower, transaction date, principal amount of proceeds, maturity date and interest or coupon. The register will also disclose information on the allocation of the use of proceeds such as: the name and description of eligible project, the amount of green finance transaction allocated to each project, the unallocated proceeds and/or any other relevant information such as the type of temporary investments for unallocated proceeds. Sustainalytics views this process aligning with market practices.

### Tracking of proceeds:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner          |  |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |  |
| <input type="checkbox"/> Other ( <i>please specify</i> ):   |  |

### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
|---|---|

## Hysan Green Finance Framework

---

- Allocation to individual disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Allocation to a portfolio of disbursements
- Other (*please specify*):

### 4. REPORTING

Overall comment on section (if applicable):

Hysan commits to report annually about the allocation of the green net proceeds on its website and in Hysan's Corporate Responsibility Reports. The (i) allocation report will comprise information on the type of funding transaction including the name of the issuer/ borrower, transaction date, tranche(s) information, principal amount of proceeds, maturity date and interest. The allocation report will also disclose the amount of proceeds allocated to each project and the name and description of the project, as well as overall amount of unallocated proceeds. Hysan will also disclose (ii) an impact report including KPIs for each eligible category, including the amount of energy saved (in kWh), the CO<sub>2</sub>eq avoided, the number and type of green buildings certification, the amount of recycled waste (in kg), the number of recycling waste facilities financed, the amount of waste water reduced (in m<sup>3</sup>) and the amount of rooftop farming, green roofs, green walls included in its buildings (in m<sup>2</sup>). Sustainalytics views the scope and granularity of Hysan's allocation and impact reporting aligned with regional and international market expectations.

**Use of proceeds reporting:**

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (*please specify*):

**Information reported:**

- Allocated amounts
- Green Bond financed share of total investment
- Other (*please specify*):

**Frequency:**

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

**Impact reporting:**

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

**Frequency:**

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

**Information reported (expected or ex-post):**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings<br><input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Energy Savings<br><input type="checkbox"/> Other ESG indicators (please specify): Amount of waste recycled (kg); Number of recycling facilities provided; Amount of wastewater reused (m <sup>3</sup> ); Area of rooftop farming, green roofs, green walls included in buildings (m <sup>2</sup> ) |
|---|--|

**Means of Disclosure**

- |   |   |
|---|---|
| <input type="checkbox"/> Information published in financial report<br><input type="checkbox"/> Information published in ad hoc documents<br><input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | <input checked="" type="checkbox"/> Information published in sustainability report<br><input checked="" type="checkbox"/> Other (please specify): corporate website |
|---|---|

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

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

Hysan corporate website: <http://www.hysan.com.hk/>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- |  |   |
|--|---|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion)<br><input type="checkbox"/> Verification / Audit<br><input type="checkbox"/> Other ( <i>please specify</i> ): | <input type="checkbox"/> Certification<br><input type="checkbox"/> Rating |
|--|---|

**Review provider(s):****Date of publication:**

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

## Disclaimer

© Sustainalytics 2018. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the "Opinion") are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the "Green Bond Framework" in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided "as is" and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017. In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

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

Or contact us [info@sustainalytics.com](mailto:info@sustainalytics.com)

