


# “Second-party Opinion” on ENN Energy Holdings Limited’s GREEN FINANCE FRAMEWORK

by Hong Kong Quality Assurance Agency (HKQAA)

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<b>Date:</b>	<b>12 April 2022</b>

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## Introduction

As announced in November 2020, the Chinese Communist Party released the 14<sup>th</sup> Five-Year Plan, spelling out China's long term development goal. Besides economic indicators, the 14<sup>th</sup> Five-year Plan also placed emphasis on the importance of promoting green and sustainable development.

Looking forward to 2035, China envisions its carbon emission will have peaked and declined steadily. To achieve this goal, the Chinese government has been pushing for a systematic transition to clean, efficient and low-carbon renewable energy in the industrial, construction and transportation sector. Furthermore, the Plan is committed to deepening the fight against pollution and adhered to prevention-first principle. Consequently, considerable amount of investment in renewable energy and advanced pollution prevention technology is foreseeable.

ENN Energy Holdings Limited is principally engaged in the investment in, and the construction, operation and management of gas pipeline infrastructure, vehicle and ship refuelling stations and integrated energy projects, the sales and distribution of piped gas, LNG and other multi-energy products in China. The Group's business operation is in line with the national policy.

ENN Energy Holdings Limited has developed the Green Finance Framework (the "Framework") under which it intends to engage in green finance activities, e.g., green bonds and green loans to finance and/or refinance, of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Group's green finance. HKQAA also reviewed relevant public documents and non-public information, in whole or in part, existing and future projects that will contribute to China's sustainable development targets. The Framework defines eligible criteria in Renewable Energy, Pollution Prevention and Control, Energy Efficiency, Sustainable Water Management, and Green Buildings.

ENN Energy Holdings Limited has engaged HKQAA to review the Framework, dated May 2020, and provided a second party opinion on the Framework's environmental credentials and its alignment with the Green Bond Principles 2021 ("GBP") and Green Loan Principles 2021 ("GLP").

## Overview of Issuer/Borrower

Established in 1992, ENN Energy Holdings Limited (“ENN Energy” or the “Group”) was one of the first privately owned gas distributors in China. Headquartered in Langfang, China, ENN Energy is mainly involved in the distribution of natural gas through city gas operations, wholesale distribution and compressed natural gas (CNG)/liquefied natural gas (LNG) refuelling stations. The Group is also involved in integrated energy supply (cooling, heating and steam and electricity), gas appliances and materials.

As a pioneer in the industry, ENN Energy is committed to integrating sustainability into daily business operations. Over the years, the Group has seized the opportunities arising from low-carbon development and market-oriented reform by focusing on various comprehensive energy solutions for customers.

In addition, China’s “Dual Carbon” target has brought tremendous development opportunities for integrated energy business that ENN Energy has been actively developing in recent years. In 2021, the Group’s integrated energy projects that were put into operation incorporated the use of various clean energy sources, including biomass, photovoltaic, energy storage and natural gas, which provided digital and intelligent support for regional integrated energy management and the achievement of carbon neutrality goals.

Following in China’s footsteps, ENN Energy has continuously supported sustainable development through its energy businesses across China. ENN Energy complies with national laws and regulations applicable to all business operations of the Group. The Group also follows the Chinese government’s vision, policy direction and commitment to sustainable development, and abides by the guidelines and obligations prescribed by the government.

## Framework Overview and Comment

### 3.1 Use of Proceeds

ENN Energy shall use the proceeds raised under the Framework to finance or refinance, new or existing Eligible Green Projects that meets one or more of the below eligible criteria:

#### ***Renewable Energy:***

Projects aimed at developing the production and use of renewable energy, such as:

- Generation of energy from renewable sources, including wind, solar, seawater heat pump, biomass, hydro and geothermal
- Transmission and distribution projects having the sole purpose of connecting renewable energy production
- Development of boilers powered by biomass, which only utilize agricultural and forestry waste

#### ***Pollution Prevention and Control & Energy Efficiency:***

- Natural gas leakage detection systems, including installing Cloud Intelligent Safety Management System
- Reuse of industrial residual heat and steam for downstream production, limited to construction and operation of pipelines to collect waste heat and associated infrastructure for distributing heating
- Installation of residual gas recovery devices on LNG transportation trucks and LNG refuelling stations
- Tailor-made integrated energy solutions to help improve energy efficiency through ENN Ubiquitous Energy Network

#### ***Sustainable Water Management:***

- Installation of drainage canals in construction sites to discharge wastewater into urban sewage pipelines if emission standards are met;
- Installation of mud pools to avoid infiltrating into groundwater or rivers; and
- Use of reclaimed water and rainwater in production process, adoption of water-saving appliances to reduce water consumption

#### ***Green Buildings:***

- Renovation of buildings (including industrial premises), certified in accordance with any one of the following selected certification systems:
  - Chinese Green Building Evaluation Label (GBL) – 2 star or above
  - U.S. Leadership in Energy and Environmental Design (LEED) – Gold or aboveleading to an energy use reduction of at least 15%
- On-site renewable energy installations, i.e. solar PV, which may be instead included in Renewable Energy depending on the scale of the projects

Additionally, exclusionary criteria are established to ensure that the proceeds of Eligible Green Projects will not fund activities including but not limited to generation and distribution infrastructure in coal-based energy, and hydro power projects with installed capacity >20MW.

### **3.2 Project Evaluation and Selection Process**

Eligible Green Projects are identified and selected via a process that involves representatives from various functional areas. ENN Energy has set up an ESG Working Group (“EWG”) for the project evaluation and selection process. The EWG consists of representatives from various departments. The shortlisted projects will be presented to ESG Committee of ENN Energy for final approval.

The EWG will meet at least every 12 months to discuss and select eligible green projects according to the Eligible Green Projects definition.

### **3.3 Management of Proceeds**

ENN Energy will maintain a register to track the use of proceeds for each GFT. The register will contain information of: i) Type of Funding Transaction and ii) Allocation of Use of Proceeds.

Any balance of issuance proceeds which are not yet allocated to Eligible Green Projects will be held in accordance with ENN Energy’s liquidity guidelines for short term time deposits or PUBLIC – 12 investments, or used to repay existing borrowings within the Group, subject to Exclusionary Criteria.

ENN Energy is committed to achieving full allocation on a best effort basis within 24 months of the GFT issuance.

### **3.4 Reporting**

ENN Energy will report on the allocation of net proceeds and associated impact metrics of its GFT(s) annually thereafter until the proceeds have been fully allocated, and when necessary, report material ESG controversies (if any) associated with the eligible projects of its GFTs. The report will contain the details of: i) Allocation Reporting; ii) Impact Reporting.

Where possible and subject to data availability and confidentiality, reporting of environmental and social (where relevant) impacts of the Eligible Green Projects will use relevant impact indicators as outlined in the ICMA Harmonized Framework for Impact Reporting.

### 3.5 Conclusion

The assessment team of Hong Kong Quality Assurance Agency has determined that ENN Energy's Green Finance Framework is well-structured and in accordance with the requirements of Green Bond Principles, and Green Loan Principles. For detail information, please refer to Appendix 3: Independent External Review Form.

## Appendix 1: Documents reviewed or referenced

No.	Author	Title
1	International Capital Market Association	Green Bond Principles (2021) <a href="https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf">https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf</a>
2	Loan Market Association	Green Loan Principles (2021) <a href="https://www.lma.eu.com/application/files/9716/1304/3740/Green_Loan_Principles_Feb2021_V04.pdf">https://www.lma.eu.com/application/files/9716/1304/3740/Green_Loan_Principles_Feb2021_V04.pdf</a>
3	International Capital Market Association	Harmonised Framework for Impact Reporting <a href="https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf">https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf</a>
4	ENN Energy	ENN Energy's Green Finance Framework – May 2020
5	ENN Energy	ENN Energy's official website <a href="http://ir.ennenergy.com/en/global/home.php">http://ir.ennenergy.com/en/global/home.php</a>
6	ENN Energy	ENN Energy's Environmental, Social, and Governance Report 2021 <a href="https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0406/2022040600021.pdf">https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0406/2022040600021.pdf</a>
7	ENN Energy	Green Project List and Register



## Appendix 2: Green Bond / Loan Independent External Review Form

### Section 1. Basic Information

**Issuer name:** *ENN Energy Holdings Limited (“ENN Energy” or the “Group”)*

**Green Bond ISIN or Issuer Green Finance Framework Name, if applicable:** *ENN Energy Holdings Limited Green Finance Framework*

**Independent External Review provider’s name:** *Hong Kong Quality Assurance Agency*

**Completion date of this form:** *12 April 2022*

**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 GBP, SBP, SBG, GLP, and SLP:

- |                                                            |                                                                                  |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| <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 INDEPENDENT EXTERNAL REVIEW PROVIDER

- |                                                           |                                         |
|-----------------------------------------------------------|-----------------------------------------|
| <input type="checkbox"/> Consultant review                | <input type="checkbox"/> Certification  |
| <input checked="" type="checkbox"/> Verification          | <input type="checkbox"/> Scoring/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 the Second-Party Opinion Document for the Group above.

### Section 3. Detailed 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.

#### 1. USE OF PROCEEDS

**Overall comment on section (if applicable):**

The HKQAA assessment team (“HKQAA”) notes that ENN Energy is intended to use the proceeds raised under the Framework in the eligible green projects in relation to renewable energy, pollution prevention and control, energy efficiency, sustainable water management, and green buildings, which is stated in the Framework. HKQAA also notes that the Group has adopted Framework-level exclusion criteria which prohibit lending towards fossil-fuel based energy generation projects.

The eligible categories for the use of proceeds are in line with the requirements of GBP and GLP. HKQAA considers that the eligible categories will lead to positive environmental impacts and advance some of the UN Sustainable Development Goals. HKQAA considers that the use of proceeds is justifiable and acceptable.

**Use of proceeds categories as per GBP/GLP:**

- |                                                                                                                                                             |                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| <input checked="" 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/GLP categories, or other eligible areas not yet stated in GBPs/GLPs | <input type="checkbox"/> Other (please specify):                                                         |

If applicable please specify the environmental taxonomy, if other than GBPs/GLPs: N/A

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

### Overall comment on section (if applicable):

ENN Energy has established an ESG Working Group to carry out the project evaluation and selection process. The ESG Working Group is composed of representatives from cross-functional departments. Shortlisted projects will be presented to ENN Energy's ESG Committee for final approval. There is standard template for Green Project Internal Application Form, the identification and management of environmental and social risks associated with the Green Eligible Projects are appeared to be appropriate.

### Evaluation and selection

- |                                                                                                              |                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <input 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 type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond/Loan proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available            | <input type="checkbox"/> Other (please specify):                                                                   |

### Information on Responsibilities and Accountability

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

## 3. MANAGEMENT OF PROCEEDS

### Overall comment on section (if applicable):

HKQAA notes that ENN Energy will earmark the net proceeds of allocation and will maintain a register to keep track of the use of proceeds for each GFT. ENN Energy may hold unallocated proceeds in accordance with its liquidity guidelines and subject to Exclusionary Criteria, pending full allocation. ENN Energy is committed to allocating all proceeds from the GFT to Eligible Project on a best effort basis within 24 months of the GFT issuance in accordance with the evaluation and selection process set out above.

HKQAA considers that ENN Energy has defined rules and details for the management of proceeds and would enable a sufficient and documented allocation process.

**Tracking of proceeds:**

- Green Bond/Loan proceeds and Social Bond/Loan proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

**Additional disclosure:**

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (*please specify*):

**4. REPORTING**

**Overall comment on section (*if applicable*):**

HKQAA notes that ENN Energy has committed to reporting on the allocation and impact of net proceeds on an annual basis until all the net proceeds have been allocated. The information will be publicly available on the Group's Sustainability Report, Annual Report or website. ENN Energy will report on relevant impact metrics where possible. HKQAA views the ENN Energy's overall reporting commitments as in line with the requirements of GBP and GLP.

**Use of proceeds reporting:**

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

**Information reported:**

- Allocated amounts
- Green Loan financed share of total investment
- Other (*please specify*): *balance of unallocated proceeds and its temporary treatment*

**Frequency:**

- Annual
- Semi-annual

Other (*please specify*):

**Impact reporting:**

- |                                                        |                                                                  |
|--------------------------------------------------------|------------------------------------------------------------------|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual loan(s) | <input type="checkbox"/> Other ( <i>please specify</i> ):        |

**Frequency:**

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

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

- |                                                             |                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings                                                                                                                                                                                                       |
| <input checked="" type="checkbox"/> Decrease in water use   | <input checked="" type="checkbox"/> Other ESG indicators ( <i>please specify</i> ):                                                                                                                                                                      |
|                                                             | <ul style="list-style-type: none"> <li>• Energy produced by renewable resource (in MWh pa, or other units)</li> <li>• Renewable energy installed capacity (in MW, or other units)</li> <li>• Energy efficiency gains in MWh or % vs. baseline</li> </ul> |

**Means of Disclosure**

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

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.*)

ENN Energy will report on the allocation of net proceeds and associated impact metrics of its GFT(s) annually thereafter until the proceeds have been fully allocated, and when necessary, report material ESG controversies (if any) associated with the eligible projects of its GFTs.

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |                                                           |                                         |
|-----------------------------------------------------------|-----------------------------------------|
| <input checked="" type="checkbox"/> Second Party Opinion  | <input type="checkbox"/> Certification  |
| <input type="checkbox"/> Verification                     | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |                                         |

**Review provider(s): VigeoEiris**

**Date of publication: May 2020**

## ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE GLP

**1. Second Party Opinion:** An institution with sustainability expertise that is independent from the issuer/borrower may provide a Second Party Opinion. The institution should be independent from the issuer/borrower's adviser for its Green Finance 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 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.

**2. Verification:** An issuer/borrower 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/borrower. 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/borrower's internal tracking method for use of proceeds, allocation of funds from Green Bond/Loan proceeds, statement of environmental impact or alignment of reporting with the Principles may also be termed verification.

**3. Certification:** An issuer/borrower can have its Green Bond/Loan or associated Green Finance 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.

**4. Green Bond/Loan Scoring/Rating:** An issuer/borrower can have its Green Bond/Loan, associated Green Finance 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, process relative to the Principles, 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.

## Appendix 3: Hong Kong Quality Assurance Agency (HKQAA)

### Local Excellence, Global Perspective

Established by Hong Kong Government in 1989, Hong Kong Quality Assurance Agency (HKQAA) is a non-profit public organisation committed to introducing international management standards, promoting good management practices and sustainability in Greater China for decades. As one of the leading conformity assessment organisations in the region, HKQAA not only provides certification, assessment, registration, training and research services to help organisations enhance management performance and competitiveness, but also develops a wide range of good management practices and related criteria to cope with increasingly diversified market demands and the growing need for sustainable development, fostering a better environment and bringing benefits to the community.

### Ample Experience in Fostering Sustainable Economy

In recent years, sustainability has become one of the key forces driving organisations towards a prolonged success. To support and encourage them to walk the talk, HKQAA has developed diverse services and obtained ample experience in the field of social responsibility, environmental protection, sustainability and responsible investment:

- With the initial support of **The Hongkong and Shanghai Banking Corporation Limited (HSBC)**, HKQAA introduced the **CSR Index** to provide quantitative metrics to measure organisations' maturity level in practicing their social responsibilities in 2008;
- HKQAA has been **the only Hong Kong organisation accredited as the Designated Operational Entity (DOE)** by the Executive Board of the Clean Development Mechanism (CDM) under the United Nations Framework Convention on Climate Change (UNFCCC) to deliver CDM validation and verification services since 2011;
- HKQAA has been providing assessment and rating services on companies' sustainability performance for the **Hang Seng Corporate Sustainability Index Series** since 2014;
- Since 2017, our expert has been nominated by the **Innovation and Technology Commission of the HKSAR Government** and the **China National Institute of Standardization** respectively to directly take part in the technical committee of ISO/ TC 207/SC 4 and the working group of **ISO/TC 207/SC 4/ WG 7** to develop **ISO 14030 Green bonds – Environmental performance of nominated projects and assets**;
- Since 2018, HKQAA has been admitted as an **Observer of the Green Bond Principles (GBP) under the International Capital Market Association (ICMA)**;
- Since 2018, HKQAA has become an **approved verifier under the Climate Bonds Standard**.

Contact HKQAA

Website: <http://www.hkqaa.org>



## Appendix 4: Acknowledgement

We acknowledge the receipt of this assessment report and agree with the content of this assessment report.

Name of Company (Name of the Issuer): ENN Energy Holdings Limited

Name of the Framework: ENN Energy Holdings Limited Green Finance Framework

For and on behalf of

(Authorized Signature)

Signature: \_\_\_\_\_



Name: WANG DONGZHI

Title: Executive Director

Date: 12 April 2022