



TOWNGAS SMART ENERGY COMPANY LIMITED SUSTAINABILITY-LINKED FINANCING FRAMEWORK



港華智慧能源有限公司
Towngas Smart Energy Company Limited

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This statement is valid until the Framework provided in March 2022 remains unchanged.

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Disclaimer

Our assessment relies on the premise that the data and information provided by the client to us as part of our review procedures have been provided in good faith. Because of the selected nature (sampling) and other inherent limitation of both procedures and systems of internal control, there remains the unavoidable risk that errors or irregularities, possibly significant, may not have been detected. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organization were applied as per scope of work. DNV expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Statement.

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¹ DNV Code of Conduct is available from DNV website (www.dnv.com)

DNV'S INDEPENDENT ASSESSMENT

Scope and Objectives

Towngas Smart Energy Company Limited² ("TSEL") is a listed company on the Hong Kong Stock Exchange and a subsidiary of The Hong Kong and China Gas Company Limited. TSEL is a public utility enterprise operating on the Chinese mainland, its core businesses including the provision of piped gas, construction and operations of gas pipelines, operation of gas fuel³ automobile refilling stations and sales of gas appliances.

TSEL has also been engaging in smart energy systems and renewable energy generation, digitalized energy management services and carbon management services in the People's Republic of China ("PRC"). In order to be in line with the PRC's carbon peak and carbon neutrality goals, TSEL has been promoting a "zero-carbon city" smart energy scheme based on the development of photovoltaic and energy storage projects and has been establishing cooperation with energy companies in the PRC to build a smart energy ecosystem.

TSEL has stated that its strategy is to create long-term corporate and social values through pursuing sustainable development in alignment with the United Nations' Sustainable Development Goals ("SDG"):

- 7 Affordable and Clean Energy;
- 11 Sustainable Cities and Communities; and
- 13 Climate Action

TSEL has described a long-term vision to create a smart energy business built on the following three pillars:

- Integration: TSEL will offer solar energy to its commercial and industrial customers besides distributing natural gas. Solar energy will be integrated with its distributed energy system, power storage offering, microgrid management and live efficiency monitoring services.
- Digitalisation: TSEL is expanding its digital capabilities through cloud computing technology, smart energy management systems, and partnerships with world-leading companies.
- Decarbonisation: TSEL will offer carbon auditing, asset management and trading capabilities for its commercial and industrial customers.

TSEL has established a Sustainability-Linked Financing Framework ("Framework") as the basis for its potential issuance of Sustainability-Linked Bond ("SLBs") and Sustainability-Linked Loans ("SLLs"), collectively referred to as "SL Instruments". TSEL has stated that the SL Instruments will be aligned to the following (collectively "Principles"):

- Sustainability-Linked Bond Principles ("SLBP"), June 2020, International Capital Market Association ("ICMA")
- Sustainability-Linked Loan Principles ("SLLP"), July 2021, Loan Syndications and Trading Association ("LSTA").

TSEL has selected the following two Sustainability Key Performance Indicators ("SKPIs") which are aligned with its low carbon transition goal

- SKPI1: Increasing the total photovoltaic installed capacity; and
- SKPI2: Increasing solar energy sales to total energy sales ratio.

² Formerly known as Towngas China Company Limited

³ In the form of compressed natural gas ("CNG") and liquefied natural gas ("LNG")

DNV Business Assurance Australia Pty Ltd. ("DNV")⁴ has been commissioned by TSEL to review its Framework and provide a Second Party Opinion ("SPO") on the Framework based on the Principles.

Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of instruments issued via the TSEL's Framework, the value of any investments, or the long-term environmental benefits of the transaction. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

Responsibilities of the Management of TSEL and DNV

The management of TSEL has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform TSEL management and other interested stakeholders in the Framework as to whether the Framework is aligned with Principles. In our work, we have relied on the information and the facts presented to us by TSEL. DNV is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by TSEL's management and used as a basis for this assessment were not correct or complete.

Basis of DNV's opinion

We have adapted our assessment methodology to create the TSEL-specific Eligibility Assessment Protocol (henceforth referred to as "Protocol"). Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the five core components:

- **Principle One: Selection of Key Performance Indicators (KPIs).** The borrower or issuer of an SL Instrument should clearly communicate its overall sustainability objectives, as set out in its sustainability strategy, and how these relate to its proposed SPTs. The KPI should be reliable, material to the borrower or issuer's core sustainability and business strategy, address relevant ESG challenges of the industry sector and be under management control.
- **Principle Two: Calibration of Sustainability Performance Targets (SPTs).** The SPTs should be ambitious, meaningful and realistic. The target setting should be done in good faith and based on a sustainability improvement in relation to a predetermined performance target benchmark.
- **Principle Three: SL Instruments Characteristics.** The SL Instrument will need to include a financial and/or structural impact depending on whether the selected KPIs reach (or not) the predefined SPTs. The SL Instrument documentation needs to include the definitions of the KPI(s) and SPT(s) and the potential variation of the SL Instruments financial and/or structural characteristics. Any fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner, should be explained.
- **Principle Four: Reporting.** The borrower or issuer should publish and keep readily available and easily accessible up to date information on the performance of the selected KPI(s), as well as a verification assurance report (see Principle 5) outlining the performance against the SPTs and the related impact and timing of such impact on the SL Instrument's financial and/or structural characteristics, with such information to be provided to

⁴ <https://www.dnv.com/services/second-party-opinion-service-9427>

those institutions participating in these SL Instruments or to investors participating in the SL Instrument at least once per annum.

- **Principle Five: Verification (Post-issuance).** The borrower or issuer should have its performance against its SPTs independently verified by a qualified external reviewer with relevant expertise, at least once per annum. The verification of the performance against the SPTs should be made publicly available.

Work Undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by TSEL in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a TSEL-specific Protocol, adapted to the purpose of the SL Instruments, as described above and in Schedule 2 to this Assessment;
- Assessment of documentary evidence provided by TSEL on the SL Instruments and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of TSEL's published materials and websites;
- Discussions with TSEL management, and review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.

Findings and DNV's Opinion

DNV's findings on the alignment with the Principles are listed below:

1. **Principle One: Selection of Key Performance Indicators (KPIs).** DNV confirms that TSEL's KPIs are core, relevant, material and consistent with the company's overarching sustainability position and strategy: (SKPI1): Increasing the total photovoltaic installed capacity; and (SKPI2): Increasing solar energy sales to total energy sales ratio. The rationale and process for KPI selection, definition, measurability, and verifiability, are robust, reliable and in accordance with the Principles. The proposed KPIs are considered to be material to the activities of TSEL and that these are core to the sustainability of the organisation, its stakeholders and are appropriate.
2. **Principle Two: Calibration of Sustainability Performance Targets (SPTs).** DNV concludes that the SPTs: SPT1 - Total photovoltaic installed capacity of 11 GW by 2028; SPT2 - Solar energy sales to total energy sales ratio of 8% by 2028, are meaningful and relevant in the context of TSEL's broader sustainability and business strategy and represent a material improvement over a predefined timeline. DNV concludes that TSEL's targets are ambitious and go beyond 'business-as-usual'. DNV has also reviewed the credibility of TSEL's approach to achieve the SPTs and considers them to be achievable within the timing set.
3. **Principle Three: SL Instruments Characteristics.** DNV reviewed the disclosures related to SL Instruments characteristics stated in the TSEL draft SL Instruments Terms and, in our opinion, the financial characteristics of securities to be issued under the Terms that could be impacted based on KPI performance under SPTs, are in line with the Principles. This impact includes but is not limited to a coupon step-up and/or coupon step-down bringing to an increase and/or decrease in the interest rate applicable to interest periods following such reference date(s). TSEL has committed to review the targets and consider upward adjustment of such, in the case of over-achievement during the tenor of the instrument.
4. **Principle Four: Reporting.** DNV concludes that the SL Instruments Terms include the required information on annual reporting of TSEL's annual performance including measurement, monitoring and reporting of metrics including chosen formats for reporting and meets the requirement as outlined in the Principles. TSEL confirms that dedicated reporting will be provided to lenders or investors at an annual interval.
5. **Principle Five: Verification.** DNV confirms that the SL Instruments Terms require TSEL to have its performance against the SPTs independently verified annually by an independent third party.

On the basis of the information provided by TSEL and the work undertaken, it is DNV's opinion that Towngas Smart Energy Sustainability-Linked Financing Framework meets the criteria established in the Protocol and are aligned with the Principles. The SPTs are material and relevant to TSEL's business strategy, operational environment and are considered to be ambitious and meaningful in the context of their operational environment.



for DNV Business Assurance Australia Pty Ltd.

Sydney, Australia / 23 March 2022

A handwritten signature in blue ink that reads "Thomas Leonard".

Thomas Leonard
Project Team

A handwritten signature in black ink that reads "Mark Robinson".

Mark Robinson
Technical Reviewer

Schedule 1. TSEL Sustainability Linked Loan / Bond Sustainability Performance Targets

Sustainability Objective	Description	Baseline Year	Baseline Value	Target Year	Target
SPT1	Total photovoltaic installed capacity (expressed in GW)	2020	0 GW	2025	8 GW
				2028	11 GW
SPT2	Solar energy sales to total energy sales ratio (expressed as a percentage)	2020	0%	2025	7%
				2028	8%

Schedule 2. Sustainability Linked Loan / Bond Eligibility Assessment Protocol

1. Selection of Key Performance Indicators (KPIs)

Ref	Criteria	Requirements	Work Undertaken	DNV Findings
1a	KPI – material to core sustainability and business strategy	<p>The borrower / issuer's sustainability performance is measured using sustainability KPIs that can be external or internal.</p> <p>The KPIs should be material to the borrower / issuer's core sustainability and business strategy and address relevant environmental, social and/or governance challenges of the industry sector and be under management's control.</p> <p>The KPI should be of high strategic significance to the borrower / issuer's current and/or future operations.</p> <p>It is recommended that the borrower / issuer communicates clearly to lenders / investors the rationale and process according to which the KPI(s) have been selected and how the KPI(s) fit into their sustainability strategy.</p>	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>DNV has reviewed TSEL's proposed KPIs for the prospective SL Instruments including:</p> <ul style="list-style-type: none"> SKPI1: Increasing the total photovoltaic installed capacity; and SKPI2: Increasing solar energy sales to total energy sales ratio <p>In addition to the SL Instruments Terms, TSEL has shared its broader sustainability strategy and aims. These were reviewed and confirmed to include key commitments to GHG emissions reductions including:</p> <ol style="list-style-type: none"> Carbon Neutrality Commitments Plan to Transition to a Leading Smart Energy Provider Readiness of Network to Prevent Leakage and Blend in Lower Carbon Gases Development of Energy-Efficient Distributed Energy System <p>TSEL's proposed KPIs are central to their commitments on sustainability performance and materially link to the sustainability of their traded commodities and the sustainability performance of their supply chain.</p>
1b	KPI - Measurability	<p>KPIs should be measurable or quantifiable on a consistent methodological basis; externally verifiable; and able to be benchmarked, i.e. as much as possible using an external reference or definitions to facilitate the assessment of the SPT's level of ambition.</p> <p>The Borrower / issuer is encouraged, when possible, to select KPI(s) that they have already been included in their previous annual reports, sustainability reports or other non-financial reporting disclosures to allow investors to evaluate historical performance of the KPIs selected. In situations where the KPIs have not been previously disclosed, The borrower / issuer should, to the extent possible, provide</p>	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>DNV concludes that the KPIs are measurable using quantifiable performance data and established benchmarks as follows:</p> <ul style="list-style-type: none"> SKPI1: Increasing the total photovoltaic installed capacity: <ul style="list-style-type: none"> Measurable through inspection of photovoltaic energy generation facilities, PPA agreements, or financial / engineering documents (such as as-built drawings provided by contractors or power companies). SKPI2: Increasing solar energy sales to total energy sales ratio: <ul style="list-style-type: none"> Gas energy sales are the actual gas sales in cubic meter (m3) sold by TSEL through its subsidiaries, converted to energy sales in terajoules (TJ). Solar energy sales are the actual solar energy generation sold from

		historical externally verified KPI values covering at least the previous 3 years.		<p>TSEL through its subsidiaries in gigawatt hours (GWh), converted to energy sales in terajoules (TJ).</p> <ul style="list-style-type: none"> Measurable through metering of: gas supplied to end customers; and, electricity derived from solar projects and supplied to end customers. <p>All of the KPIs are readily externally verifiable and are based on quantifiable evidence that may be recorded and recalled for the purposes of verification.</p> <p>DNV concludes that the measurement methodology is robust and a reliable set of metrics to measure the KPIs has been selected.</p>
1c	KPI – Clear definition	A clear definition of the KPI(s) should be provided and include the applicable scope or perimeter as well as the calculation methodology	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>DNV confirms that the KPIs have been defined and are understood in the correct context:</p> <ul style="list-style-type: none"> SKPI1: Increasing the total photovoltaic installed capacity: <ul style="list-style-type: none"> Defined as installed capacity of power plants in operation or where mechanical completion phase has been reached. SKPI2: Increasing solar energy sales to total energy sales ratio: <ul style="list-style-type: none"> Total energy sales include energy sales from solar and gas. Both solar energy sales and gas energy sales units will be measured in terajoules (TJ). TSEL recognizes that a unit (TJ) of gas and unit (TJ) of electricity are not perfectly fungible, as they do not necessarily have the same utility to the end user. However, the intention of this KPI is to measure and track the progress of the company in transitioning to a more sustainable form of energy supply.

2. Calibration of Sustainability Performance Targets (SPTs)

Ref	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Target Setting - Meaningful	The SPTs should be ambitious, realistic and meaningful to the borrower/ issuer's business and be consistent with the borrower /issuer's overall strategic sustainability/ESG strategy	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>DNV confirms that the SPTs are consistent with the borrower / issuer's overall strategic sustainability and GHG reduction strategy and aligned with one of TSEL's core ESG policy goals.</p> <p>The targets are ambitious in the context of TSEL's business:</p> <ul style="list-style-type: none"> SKPI1: Increasing the total photovoltaic installed capacity: <ul style="list-style-type: none"> The SKPI is in line with TSEL's intention to, <i>"to help its clients in their low carbon transition journey"</i> and should be seen in conjunction with its plan to invest in and operate 200 zero-carbon smart industrial parks. SKPI2: Increasing solar energy sales to total energy sales ratio: <ul style="list-style-type: none"> The SKPI is in line with TSEL's intention to, <i>"gradually increase the Group's renewable energy sales compared to traditional gas energy sales"</i>. TSEL plans to expand solar energy sales with its cooperation with various zero-emission smart industrial parks.
2b	Target Setting - Meaningful	SPTs should represent a material improvement in the respective KPIs and be beyond a "Business as Usual" trajectory; where possible be compared to a benchmark or an external reference and be determined on a predefined timeline, set before (or concurrently with) the issuance of the Loan / Bond.	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>DNV confirms that the chosen SPTs represent a material improvement of the KPIs, being substantial improvements over the baseline condition and through the SL Instruments term. The targets are ambitious in the context of TSEL's business:</p> <ul style="list-style-type: none"> SKPI1: Increasing the total photovoltaic installed capacity: <ul style="list-style-type: none"> Installed capacity of solar PV was 0 GW in 2020. Installing 8 GW of solar PV by 2025 and 11 GW by 2028 is an ambitious target. In 2025, China's expected commercial & industrial ("C&I") distributed photovoltaic capacity is 120 GW. The Group would hence have approximately 6.7% market share based on its targeted total photovoltaic installed capacity of 8 GW by 2025. SKPI2: Increasing solar energy sales to total energy sales ratio:

				<ul style="list-style-type: none"> TSEL currently supplies gas and renewable energy accounts for 0%. An increase to 8% renewable energy supply in its total energy supply by 2028 is an ambitious target.
2c	Target Setting – benchmarks	<p>The target setting exercise should be based on a combination of benchmarking approaches:</p> <ol style="list-style-type: none"> The borrower / issuer's own performance over time for which a minimum of 3 years, where feasible, of measurement track record on the selected KPI(s) is recommended and when possible forward-looking guidance on the KPI The SPTs relative positioning versus the borrower / issuer's peers where comparable or available, or versus industry or sector standards Systematic reference to science-based scenarios, or absolute levels (e.g. carbon budgets) or official country / regional / international targets or to recognised Best-Available-Technologies or other proxies 	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>Based on our discussions and review of documents - DNV confirms that the SPT target setting exercise has been based on an appropriate combination of methodologies including benchmarking approaches:</p> <ol style="list-style-type: none"> DNV confirms that the Loan / Bond Terms provide KPI descriptions and SPT performance as relevant. DNV concludes that the SPTs outlined go beyond that of the industry standard as considered by DNV on a regional basis. DNV concludes that the SPTs are appropriate in the context of sustainability efforts for TSEL.
2d	Target setting – disclosures	<p>Disclosures on target setting should make clear reference to:</p> <ol style="list-style-type: none"> the timelines for the target achievement, including the target observation date(s)/ period(s), the trigger event(s) and the frequency of review of the SPTs Where relevant, the verified baseline or reference point selected for improvement of KPIs as well as the rationale for that baseline or reference point to be used Where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place 	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>DNV confirms that the relevant disclosures on target setting are appropriately referenced:</p> <ol style="list-style-type: none"> The timelines of SPT target achievement are clearly referred to, leading up to 2025, with proposed disclosures through the annual Environmental, Social and Governance Report ("ESG Report"). The reference point for the SPTs will be a baseline from 2020 for all KPIs. This is considered to be reasonable by DNV as it captures the most recent performance under each relevant scenario. Based on the review and discussion with TSEL representatives, we are of the opinion that TSEL has considered any situations that could lead to a recalculation of the KPI

		<p>5. Where possible and taking into account competition and confidentiality considerations, how the borrower / issuer intends to reach such SPTs</p>		<p>baseline/trajectory. This is noted to be highly unlikely and unnecessary given the straight forward nature of the KPIs and SPTs.</p> <p>4. The Loan / Bond Terms and background information provided offer sufficient information on how SPTs will be achieved, references how progress to date has been achieved and the likely measures to be implemented to meet the KPI. Based on our interactions with TSEL and review of the materials provided the method by which each SPT is to be achieved is considered to be well explained and logical in context.</p> <p>After review of TSEL's overall policy strategy and management approach, DNV concludes that the SPTs are realistic and possible to meet.</p>
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3. Loan /Bond Characteristics

Ref	Criteria	Requirements	Work Undertaken	DNV Findings
3a	SL Instruments Characteristics – SPT Financial / structural impact	The SL Instruments will need to include a financial and/or structural impact based on whether the KPI(s) reach the predefined SPT(s).	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>TSEL has stated that a failure and/or achievement to satisfy the predefined SPT(s), on the reference date(s), will trigger a coupon step-up and/or coupon step-down bringing to an increase and/or decrease in the interest rate applicable to interest periods following such reference date(s). The pricing adjustment mechanism will depend from SL Instrument to SL Instrument, and will be specified in the legal documentations of the SL Instrument, in the form of pricing supplement for SLBs, or loan agreement for SLLs.</p> <p>TSEL has committed to review the targets and consider upward adjustment of such, in the case of over-achievement during the tenor of the instrument.</p>

4. Reporting

Ref	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Reporting	<p>The borrower / issuer of SL Instruments should publish, and keep readily available and easily accessible:</p> <ol style="list-style-type: none"> Up-to-date information on the performance of the selected KPI(s), including baselines where relevant A verification assurance report relative to the SPT outlining the performance against the SPTs and the related impact, and timing of such impact, on the SL Instruments financial and/or structural characteristics Any information enabling investors to monitor the level of ambition of the SPTs <p>This reporting should be published regularly, at least annually, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SL Instruments' financial and/or structural characteristics.</p>	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngasmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	<p>TSEL has stated that it will disclose performance of the selected SKPI(s) in a dedicated section of its annual Environmental, Social and Governance report ("ESG Report"); to be available on website, and including:</p> <ul style="list-style-type: none"> Up-to-date SKPI performance; Assessment of SPT performance leading to a potential adjustment of the SL Instrument's financial characteristics; Verification assurance report confirming whether the performance of the SKPI(s) meet the relevant SPT(s) for the year(s) to assess the SPT performance leading to a potential adjustment of the SL Instruments' financial characteristics; Any other information relevant to investors. <p>If there are changes in the SKPI calculation methodology, TSEL will report the changes and rationale in the annual reporting.</p>

5. Verification

Ref	Criteria	Requirements	Work Undertaken	DNV Findings
5a	External Verification	The borrower / issuer should have its performance against each SPT for each KPI independently verified by a qualified external reviewer with relevant expertise, at least once a year.	<p>Review of:</p> <ul style="list-style-type: none"> TSEL_SL Financing Framework, March 2022 TSEL Website www.towngassmartenergy.com Towngas China Company Limited Annual Report 2020 <p>Correspondence with TSEL's representatives.</p>	DNV confirms that TSEL has committed to obtain external and independent verification of its annual KPI performance relative to the SPTs and share the same with lenders / investors.



WHEN TRUST MATTERS

About DNV

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