



# Second-Party Opinion

## HTWO Guangzhou Green Finance Framework

### Evaluation Summary

Sustainalytics is of the opinion that the HTWO Guangzhou Green Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Clean Transportation, Renewable Energy, and Sustainable Water and Wastewater Management – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to facilitate low-carbon transportation, improve the environmental performance of the Company’s operations in China and advance the UN Sustainable Development Goals, specifically SDG 6, 7 and 9.



**PROJECT EVALUATION / SELECTION** HTWO’s internal Working Group, comprising of senior members from Finance and Accounting department and Business Strategy department, will manage the process of evaluating and selecting projects in accordance with the eligibility criteria in the Framework. The eligible assets will be reviewed on an annual basis. HTWO intends to apply HMC’s requirements on environmental protection, ethics and human rights to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** HTWO intends to monitor and track the allocation of proceeds to eligible projects via a Green Financing Register, which will be reviewed by the Working Group on an annual basis. Pending full allocation, proceeds will be temporarily held as cash or cash equivalents in HTWO’s main operating bank accounts, for up to 12 months from issuance. This is in line with market practice.



**REPORTING** HTWO intends to annually report on the allocation and impact of proceeds until full allocation on its website, for public issuances, or make the same available to its lenders or investors upon request. Allocation reporting will include the total amount of proceeds allocated, the share of financing versus refinancing and the balance of unallocated proceeds. As part of impact reporting, HTWO is committed to reporting on relevant environmental impact metrics. Sustainalytics views HTWO’s allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	October 21, 2021
<b>Issuer Location</b>	Guangzhou, China

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## Introduction

HTWO Guangzhou Co., Ltd. (“HTWO”, or the “Company”)<sup>1</sup>, established in 2021, is a wholly-owned subsidiary of Hyundai Motor Group (“HMG”), 60% owned by direct parent Hyundai Motor Company (“HMC”). The Company is dedicated to manufacturing and selling hydrogen fuel cell systems in China. HMG is headquartered in Seoul, South Korea and employees 277,558 people.<sup>2</sup>

HTWO has developed the Green Finance Framework (the “Framework”) under which it intends to issue green bonds and loans and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that are expected to promote clean transportation and improve the environmental performance of the Company’s operations in China. The Framework defines eligibility criteria in three areas:

1. Clean Transportation
2. Renewable Energy
3. Sustainable Water and Wastewater Management

HTWO engaged Sustainalytics to review the Green Finance Framework, dated October 2021, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)<sup>3</sup> and the Green Loan Principles 2021 (GLP).<sup>4</sup> This Framework will be published in a separate document.<sup>5</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>6</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11 which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of HTWO’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 the Framework. HTWO representatives have confirmed (1) they understand it is the sole responsibility of HTWO to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and HTWO.

<sup>1</sup> As confirmed by HTWO Guangzhou, HMC’s sustainability policies and strategies apply to HTWO

<sup>2</sup> Hyundai Motors Group Corporate website, accessed on September 2021, at: <https://www.hyundaimotorgroup.com/About-Us/Group-Performance.hub>

<sup>3</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>4</sup> The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

<sup>5</sup> Sustainalytics notes that HTWO intends to publish the Framework and SPO post issuance, however as a newly established entity, HTWO has not set up a website at this stage.

<sup>6</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that HTWO Guangzhou has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

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

Sustainalytics is of the opinion that the HTWO Guangzhou Green Finance Framework is credible and impactful and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of HTWO's Green Finance Framework:

- Use of Proceeds:
  - The eligible categories – Clean Transportation, Renewable Energy, and Sustainable Water and Wastewater Management – are aligned with those recognized by the GBP and GLP. Sustainalytics considers that HTWO's investments in eligible projects are expected to facilitate low-carbon transportation and improve the environmental performance of the Company's operations in China.
  - HTWO has established a three-year look-back period for its refinancing activities and intends to complete the full allocation of proceeds within 12 months after issuance. Sustainalytics views this to be in line with market practice.
  - Under the Clean Transportation category, HTWO may finance and refinance expenditures related to the construction of manufacturing plants dedicated to hydrogen fuel cell systems, as well as the development and production of hydrogen fuel cell systems, including procuring of raw materials and parts, labour and R&D. Additionally, HTWO confirmed that it will direct R&D expenses expressly towards improving efficiency and cost-effectiveness of hydrogen fuel cells and that it intends to limit R&D financing to below 5% of total net proceeds. Sustainalytics views this in line with market practice.
  - Under the Renewable Energy category, HTWO may finance and refinance the purchase, construction, operation and maintenance of solar power generation facilities. In addition, HTWO intends to purchase renewable power generated from the state grid via purchase agreements (PPAs). Sustainalytics notes that HTWO commits to long-term renewable energy PPAs (five years or more) where feasible, and in case of short-term PPAs, will renew the PPAs on an ongoing basis to ensure long-term commitment. In addition, HTWO confirmed that though some of the state grids may not be fully renewable, China has mechanisms in place to trace and ensure only renewable sources of electricity.<sup>7</sup> Further, the Issuer intends to exclude power generated from fossil fuels. This is in line with market practice.
  - Under the Sustainable Water and Wastewater Management category, HTWO may invest in the purchase, installation, operation or maintenance of water saving and wastewater treatment facilities. HTWO has confirmed to Sustainalytics that the wastewater is not from fossil fuel

<sup>7</sup> China has launched a pilot scheme for green power trading from 7 September 2021, under which electricity users can directly trade with wind power and photovoltaic power generators, or alternatively trade with grid companies on the renewable power that the grid guarantees to purchase. The pilot has been rolled out in Guangdong. The State Council, "Pilot direct trading of green power launched", (2021), at: [http://english.www.gov.cn/statecouncil/ministries/202109/08/content\\_WS6137ee2bc6d0df57f98dfd3d.html](http://english.www.gov.cn/statecouncil/ministries/202109/08/content_WS6137ee2bc6d0df57f98dfd3d.html)

- operations and its treatment is not powered by energy generated from fossil fuel. This is in line with market practice.
- In accordance with the Company's exclusion criteria, proceeds from issuance of the debt instruments under this Framework will exclude the project, asset, expenditure or investment related to fossil fuel, nuclear energy, predatory lending, weapons, deforestation and forest degradation.
  - Project Evaluation and Selection:
    - HTWO's internal Working Group will manage the process of evaluating and selecting projects. The Working Group will include senior members from Finance and Accounting department and Business Strategy department. The Working Group will meet annually to review the eligible assets and ensure that they comply with the Framework's eligibility criteria.
    - Until full allocation, HTWO's Finance and Accounting department will annually review the allocation of proceeds to ensure it is aligned with the Framework and suggest necessary changes, if any. The Working Group will be responsible for giving the final approval.
    - HTWO intends to apply HMC's requirements on environmental protection, ethics and human rights to all allocation decisions made under the Framework. Additionally, the Working Group will ensure that the selected Eligible Assets comply with official national and international environmental and social standards, local laws and regulations.
    - Based on the cross-functional oversight for project selection and risk management system, Sustainalytics considers this process to be in line with market practice.
  - Management of Proceeds:
    - HTWO intends to track and monitor the allocation of proceeds to eligible projects via a Green Financing Register, which will be reviewed by the Working Group on an annual basis. The Green Financing Register will include information such as details of the issuer or borrower, details of the eligible project, amount of proceeds allocated to each project and project category, the amount of unallocated proceeds and the estimated environmental impact.
    - Pending full allocation, proceeds will be temporarily held as cash or cash equivalents in HTWO's main operating bank accounts and are managed by HTWO's Finance & Accounting department, subject to exclusion criteria specified under the Framework.
    - Based on the established tracking system and disclosure of temporary use of proceeds. Sustainalytics considers this process to be in line with market practice.
  - Reporting:
    - HTWO intends to report on the allocation and impact of proceeds until full allocation on an annual basis on its website, for public issuances, or make the same available to its lenders or investors upon request.
    - Allocation reporting will include the total amount of proceeds allocated, the share of financing versus refinancing and the balance of unallocated proceeds. Whereas impact reporting will include relevant environmental impact metrics where available, such as amount of hydrogen cell systems produced, number of trucks/ buses/ cars supported, reduction in CO<sub>2</sub>e (tons) per year, MWh of renewable energy generated per year, absolute amount of wastewater treated per year. For a complete list of impact indicators, please refer to Appendix 1.
    - Based on the frequency and accessibility of allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

#### **Alignment with Green Bond Principles 2021 and Green Loan Principles 2021**

Sustainalytics has determined that the HTWO Guangzhou Green Finance Framework aligns to the four core components of the GBP and GLP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

## **Section 2: Sustainability Strategy of HTWO Guangzhou**

### **Contribution of Framework to HTWO's sustainability strategy**

As a direct parent company to HTWO, HMC's strategies and policies, including those related to sustainability apply to HTWO as well. In 2020, "HMC" conducted a materiality assessment to identify the key issues that impacted its business and stakeholders. In its 2020 materiality assessment, HMC identified environmental

investment, supply chain ESG and technological innovation to be the top three material issues. Sustainalytics is of the opinion that HMC demonstrates a commitment to sustainability with a focus on the following environmental areas: (i) Reducing carbon emissions (ii) Promoting circular economy and (iii) Improving management of harmful substances.<sup>8</sup> Additionally, in December 2020, HMC announced its Business Strategy 2025, which included the electrification of its automotive business and shifting to hydrogen solutions by expanding its fuel cell business to reduce GHG emissions.<sup>9</sup>

As part of HMC's initiative to move away from fossil fuels and shift towards hydrogen solutions, Hyundai established the HTWO brand in December 2020 and plans to complete the construction of the HTWO Guangzhou plant in 2022.<sup>8</sup> In the same year, HMC had its first export of fuel cell systems to businesses in the non-vehicle sector.<sup>9</sup> It also signed an MoU with the U.S. Department of Energy for hydrogen and hydrogen fuel cell technology innovations and cooperation.<sup>8</sup> Further in 2021, the HMG announced its 'Hydrogen Vision 2040' which focuses on introducing hydrogen-based technologies and mobility solutions in transportation.<sup>10</sup>

As part of its initiative to reduce carbon emissions, HMC is committed to using renewable energy sources for power generation. As of 2020, HMC had started using solar power generation technology in some of its vehicles including the SONATA Hybrid model and intended to apply the same to its IONIQ 5 and GENESIS brands of electric vehicles in 2021.<sup>8</sup> With a view to reduce carbon emissions at its plants, HMC has been making efforts to convert its plants to renewable energy sources. For instance, in 2020 approximately 28% of the electricity used in the Hyundai Motor India plant came from wind and solar energy.<sup>8</sup>

As part of HMC's initiative to promote circular economy, it intends to increase its water recycling and efficiently manage water pollutants generated at its sites by putting in place effective water and wastewater management standards. HMC has also identified 'Water resource management' and 'Reducing wastewater' to be issues of interest to its stakeholder groups, especially local communities where HMC operates.<sup>8</sup> HMC has established water resources management policies and set customized water pollution reduction targets for every plant. As a result, in 2020 HMC's resource input reduced to 9.9 million tonnes of water from 11.6 million tonnes of water in 2018. HMC was also able to reduce its output of water pollutants by 55% in 2020 as compared to 2018.<sup>8</sup>

Sustainalytics is of the opinion that the HTWO Guangzhou Green Finance Framework is aligned with HMC's overall sustainability strategy and initiatives and will further HMC's action on its key environmental priorities.

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

While Sustainalytics recognizes that the net proceeds from the bonds and loans issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some of the key risks associated with the eligible projects include issues involving land use and biodiversity, potential emission of harmful substances and other effluents, solid waste generated in construction and operation, as well as occupational health and safety and other issues related to labour and community and stakeholder relations.

Sustainalytics is of the opinion that HTWO is able to manage or mitigate the potential risks by implementing or complying with the following policies and procedures that apply in HMC:

- HMC has established an Environmental Management Policy<sup>11</sup> that applies to all of its plants and affiliates. As part of the Environmental Management Policy, HMC has committed to establishing an integrated portal system to systematically manage overall environment-related issues, including, monitoring greenhouse gas emissions, environmental pollutants and water resources through internal and third-party inspections. In addition, HMC has in place a global policy of prohibiting the use of lead, mercury, hexavalent chromium and cadmium in all of its processes. HMC has established its own harmful substances management standards and committed to prohibiting, limiting or managing harmful substances in compliance with applicable international standards and initiatives.<sup>8</sup>

<sup>8</sup> Hyundai Motor Company, "Road to Sustainability: 2021 Sustainability Report", at:

<https://www.hyundai.com/content/dam/hyundai/ww/en/images/company/sustainability/about-sustainability/hmc-2021-sustainability-report-en.pdf>

<sup>9</sup> Hyundai Motor Company, "Hyundai Motor Updates 'Strategy 2025'", (2020), at: <https://www.hyundai.news/eu/articles/press-releases/hyundai-motor-updates-strategy-2025.html>

<sup>10</sup> Hyundai Motor Group, "Hyundai Motor Group Presents Its Vision to Popularize Hydrogen by 2040 at Hydrogen Wave Forum", (2021), at: <https://news.hyundaimotorgroup.com/MediaCenter/News/Press-Releases/Hyundai-Motor-Group-Presents-Its-Vision-to-Popularize-Hydrogen-by-2040-at-Hydrogen-Wave-Forum>

<sup>11</sup> Hyundai Motor Company, "Hyundai Motor Company Environmental Management Policy", (2020), at:

<https://www.hyundai.com/content/dam/hyundai/ww/en/images/company/sustainability/about-sustainability/policy/hyundai-environmental-management-policy-eng.pdf>

- HMC has established an Ethics Charter & Code of Conduct<sup>12</sup> and a Human Rights Charter<sup>13</sup>, in which it is committed to ensuring occupational safety and employee well-being. HMC aims to maintain a safe working environment that prevents occupational accidents, injuries, disasters, disease and contagion. It has committed to performing periodic inspections of all facilities, equipment and tools and taking appropriate measures to prevent physical and mental hazards, such as designing safer workplaces, performing on-site safety and health evaluation, and carrying out emergency drills twice a year.<sup>8</sup>
- With regard to community and stakeholder relations, HMC is committed to protecting the human rights and the rights to safety and health of local residents where it operates. Additionally, HMC has committed to identifying stakeholders impacted by its decisions and to communicating or taking actions regarding the concerned sustainability matters.
- Concerning labour relations, HMC is committed to complying with recognized international labour standards and guidelines including the right to organize labour unions, collective bargaining and fair compensation. In addition, it has in place a grievance procedure for reporting and processing human rights violations, including labour rights issues. HMC has performed human rights risk assessments that cover work environments and conditions based on written and on-site inspections.<sup>14</sup>
- Nonetheless, HMC has faced repeated controversies regarding labour relations in the past several years, pertaining to fair compensation, recognition of labour unions and status of temporary employees. The majority of incidents occurred in South Korea and India and are therefore not directly related to use of proceeds under this Framework, which will take place in China. HMC has taken additional measures in respect of labour-management relations and communication in and outside South Korea, such as employee surveys and interviews, regular meetings and operation of advice and assistance centres.<sup>15</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that HMC has implemented adequate measures in place and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories. Sustainalytics further encourages HTWO to uphold HMC's commitments and to take effective and proactive practices that protect labour rights in China.

### Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics focuses on the below on those whose the impact is specifically relevant in the local context.

#### Importance of clean transportation in mitigating climate change in China

The transport sector is among the top-five sectors contributing to GHG emissions in China.<sup>16</sup> Since 2000, the average year-on-year energy consumption growth rate of transportation (9%) is above the general level of the entire society (7.9%).<sup>17</sup> Road transportation is the major source of energy consumption and emissions of China's transport sector. For example, automobiles consumed 42% of China's oil and over 80% of its refined oil in 2018.<sup>18</sup>

As the world's largest emitter of CO<sub>2</sub>,<sup>19</sup> China is taking steps to mitigate its contribution to climate change. In 2020, China committed to a strengthened national determined contribution target to peak CO<sub>2</sub> emissions before 2030 and reach carbon neutrality before 2060.<sup>20</sup> Regarding the transport sector, China has been promoting clean transportation with supportive policies. In 2020, the State Council of China released the New

<sup>12</sup> Hyundai Motor Company, "Hyundai Motor Company Ethics Charter & Code of Conduct", (2020), at: <https://www.hyundai.com/content/dam/hyundai/ww/en/images/company/sustainability/about-sustainability/policy/hyundai-ethics-charter-and-code-of-conduct-eng.pdf>

<sup>13</sup> Hyundai Motor Company, "Hyundai Motor Company Human Rights Charter", (2021), at: <https://www.hyundai.com/content/dam/hyundai/ww/en/images/company/sustainability/about-sustainability/policy/hyundai-human-rights-policy-eng-2021.pdf>

<sup>14</sup> Hyundai, "2021 Sustainability Report"

<sup>15</sup> Ibid.

<sup>16</sup> International Energy Agency, "Tracking Transport 2020", (2020), at: <https://www.iea.org/reports/tracking-transport-2020>

<sup>17</sup> Energy Research Institute of National Development and Reform Commission, "Study on the 13th FYP and 2030 Energy Conservation Targets by 2030 (Chinese only)", (2017), at: <https://www.efchina.org/Attachments/Report/report-20170301-1-zh/report-20170301-1-zh>

<sup>18</sup> Council on Foreign Relations, "Fossil Fuel Free: A Plan to Phase Out China's ICEVs", (2019) at: <https://www.cfr.org/blog/fossil-fuel-free-plan-phase-out-chinas-icevs>

<sup>19</sup> Global Carbon Atlas, at: <http://www.globalcarbonatlas.org/en/CO2-emissions>

<sup>20</sup> Climate Action Tracker, "China", at: <https://climateactiontracker.org/countries/china/>

Energy Vehicle Industrial Development Plan (2021-2035),<sup>21</sup> which set forth the strategy of breaking through bottlenecks in core technologies of new energy vehicles<sup>22</sup>, promoting commercialization of fuel cell vehicles and developing hydrogen fuel supply, refueling and battery swapping facilities.<sup>23</sup> The Plan sets a roadmap for new energy vehicles to reach 20% of the total sales of all new vehicles by 2025 and for fuel cell vehicles to be commercialized by 2035.

Sustainalytics is of the opinion that the clean transportation and renewable energy projects financed under the Framework are expected to facilitate low-carbon transportation in China and contribute to China's climate change mitigation commitments.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) and loan(s) issued under the Green Finance Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	9. Industry, Innovation, and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally

## Conclusion

HTWO has developed the Green Finance Framework under which it may issue green bonds and/or loans and use the proceeds to finance Clean Transportation, Renewable Energy and Sustainable Water and Wastewater Management projects. Sustainalytics considers that the projects funded by the green bond proceeds are expected to facilitate low-carbon transportation and improve the environmental performance of the Company's operations in China.

The Green Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Green Finance Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 6, 7 and 9. Additionally, Sustainalytics is of the opinion that HTWO Guangzhou has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that HTWO Guangzhou Co., Ltd. is well-positioned to issue green bonds and green loans that the Green Finance Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2021.

<sup>21</sup> The Government of China, "New Energy Vehicle Industrial Development Plan (2021-2035) (Chinese only)", (2020), at: [http://www.gov.cn/zhengce/content/2020-11/02/content\\_5556716.htm](http://www.gov.cn/zhengce/content/2020-11/02/content_5556716.htm)

<sup>22</sup> New energy vehicles refer to vehicles that use new power systems and rely entirely or mainly on new energy sources, including mainly pure electric vehicles, plug-in hybrid vehicles and fuel cell vehicles. The Government of China, "Energy-Saving and New Energy Vehicle Industry Development Plan (2012-2020) (Chinese only)", (2012), at: [http://www.gov.cn/gongbao/content/2012/content\\_2182749.htm](http://www.gov.cn/gongbao/content/2012/content_2182749.htm)

<sup>23</sup> International Council on Clean Transportation, "China's New Energy Vehicle Industrial Development Plan for 2021 to 2035", (2021), at: <https://theicct.org/sites/default/files/publications/China-new-vehicle-industrial-dev-plan-jun2021.pdf>

## Appendix

### Appendix 1: Green Bond / Green Bond Programme - External Review Form

#### Section 1. Basic Information

<b>Issuer name:</b>	HTWO Guangzhou Co., Ltd.
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:</b>	Green Finance Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	October 21, 2021
<b>Publication date of review publication:</b>	

#### 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:

- |  |  |
|--|--|
| <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 Evaluation Summary 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 eligible categories for the use of proceeds – Clean Transportation, Renewable Energy, and Sustainable Water and Wastewater Management – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories is expected to facilitate low-carbon transportation, improve the environmental performance of the Company's operations in China and advance the UN Sustainable Development Goals (SDGs), specifically SDG 6, 7 and 9.

### Use of proceeds categories as per GBP:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy  | <input type="checkbox"/> Energy efficiency   |
| <input 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 checked="" 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 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 GBP | <input type="checkbox"/> Other (please specify):   |

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

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

HTWO's internal Working Group will manage the process of evaluating and selecting projects in accordance with the eligibility criteria in the Framework. The Working Group will include senior members from Finance and Accounting department and Business Strategy department. The eligible assets will be reviewed on an annual basis. HTWO intends to apply HMC's requirements on environmental protection, ethics and human rights to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

### 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 checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

- Summary criteria for project evaluation and selection publicly available       Other (*please specify*):

#### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification       In-house assessment
- Other (*please specify*):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

HTWO intends to monitor and track the allocation of proceeds to eligible projects via a Green Financing Register, which will be reviewed by the Working Group on an annual basis. Pending full allocation, proceeds will be temporarily held as cash or cash equivalents in HTWO's main operating bank accounts, no longer than 12 months from issuance. This is in line with market practice.

#### Tracking of proceeds:

- Green Bond/ Loans proceeds segregated or tracked by the issuer/ the borrower 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*):

HTWO intends to annually report on the allocation and impact of proceeds until full allocation on its website, for public issuances, or make the same available to its lenders or investors upon request. Allocation reporting will include the total amount of proceeds allocated, the share of financing versus refinancing and the balance of unallocated proceeds. As part of impact reporting, HTWO is committed to reporting on relevant environmental impact metrics. Sustainalytics views HTWO's allocation and impact reporting as aligned with market practice.

**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*): the share of financing versus refinancing and the balance of unallocated proceeds

**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*):

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

- GHG Emissions / Savings
  Energy Savings
- Decrease in water use
  Other ESG indicators (*please specify*): Amount of hydrogen fuel cell systems produced, Number of trucks / buses / passenger cars supported, Annual CO<sub>2</sub> emission reduced or avoided (tons), Capacity of renewable energy facilities constructed or rehabilitated in MW, Annual renewable energy generation in MWh, Absolute (gross) amount of wastewater treated in m<sup>3</sup> p.a., Absolute (gross) amount of water saved in m<sup>3</sup> p.a.

**Frequency**

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

**Means of Disclosure**

- Information published in financial report
  Information published in sustainability report

- Information published in ad hoc documents
- Other (please specify): Sustainalytics notes that HTWO intends to publish the Framework and SPO post issuance, however as a newly established entity, HTWO has not set up a website at this stage
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): HTWO intends to request an external verification on the allocation of the Use of Proceeds to the Eligible Green Assets one year after issuance or after full allocation or following any material events.

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.)

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

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

- Consultancy (incl. 2<sup>nd</sup> opinion)                       Certification
- Verification / Audit     Rating
- Other (please specify):

**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.

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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).

