

# **New World Development Sustainability-Linked Bond Framework**

## **Introduction**

New World Development Company Limited (“NWD”, Hong Kong stock code: 00017), a premium brand infused with a unique personality defined by The Artisanal Movement, was founded in 1970 and was publicly listed in Hong Kong in 1972 and is a constituent stock of the Hong Kong Hang Seng Index. Its Greater China operations, especially in the Greater Bay Area, had a total asset value of approximately HK\$600.2 billion as at 30 June 2020. NWD’s primary business line is in real estate. NWD operates alongside other listed entities within New World Group (“the Group”), and together they create a connected ecosystem of sustainable communities, services and lifestyle-related businesses that supports the artisanal living culture and enriches the lives of our stakeholders.

The Artisanal Movement is a cultural vision, a philosophy for living. We believe in creating shared value and positive impact not only for our shareholders but all stakeholders.

Since 2019, NWD has been a constituent of the Dow Jones Sustainability Asia Pacific Index and awardee of the highest 5-star rating from Global Real Estate Sustainability Benchmark (GRESB).

## **Our Sustainability Approach**

Sustainability is the Group's top business priority. It is an integral part of NWD's mission to create shared value and long-term commitment to building sustainable communities and is a core consideration for NWD's property business. We strive to maximise our sustainability impact by prioritising issues that are most material to our business and stakeholders.

Underpinning the company's approach to sustainability is an emphasis on activating change and collective action through cross-sectoral platforms and partnerships. NWD is a member or supporter of multiple international initiatives and organisations, such as World Business Council for Sustainable Development (WBCSD), United Nations Global Compact, Task Force on Climate-related Financial Disclosures (TCFD), Women's Empowerment Principles and Urban Land Institute (ULI).

For additional information on NWD and the Group's sustainability approach, please visit <https://sustainability.nwd.com.hk/our-strategy/>.

### **Governance and Risk Management**

NWD integrates sustainability management throughout its corporate governance structures and business functions. Our Board-level Sustainability Committee and senior management assume oversight and responsibility on setting and approving objectives, performance targets and execution plans of NWD's sustainability and environmental, social and governance (ESG) strategy and risk management. The practical implementation of our sustainability strategy is led and deployed by our Sustainability Steering Committee, which comprises senior executives from corporate functions and major business units, including the Group Sustainability Department, Group Audit & Management Services, Project Management and Property Management. Notably, sustainability targets are established as key performance indicators (KPI) for NWD's senior management, departments and employees.

### **New World Sustainability Vision 2030**

With reference to the Group's long-term business strategy and the United Nations Sustainable Development Goals ("UNSDGs"), the New World Sustainability Vision 2030 ("SV2030") was developed in 2018 as our guide to curate products, services and cultural content that enhance customer experience based on four pillars: *Green, Wellness, Smart and Caring*.

Under SV2030, Group-wide environmental and social targets have been established, covering New World Group businesses in property (NWD, New World China Land, K11), infrastructure and services (NWS Holdings Limited) and retail (New World Department Store China Limited). To achieve these targets, NWD has created its own strategy to address its ESG performance and has developed comprehensive ESG policies to standardise its property lifecycle approach.

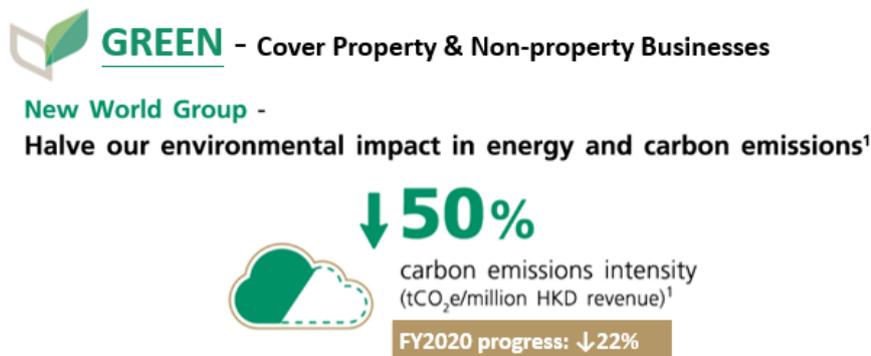


Figure 1: SV2030 Carbon Emissions Target

By preserving the environment, promoting healthy lifestyles, supporting the needs of stakeholders and innovating through technology, SV2030 steers the Group to boldly grow its business in ways that nurture better outcomes for our people, customers and environment. This has enabled NWD, as the Group’s property flagship, to create iconic, transformative and more sustainable spaces and places.

Our comprehensive ESG policies are designed to integrate sustainability considerations throughout the Group and standardise property development through a sustainable building lifecycle approach.<sup>1</sup> As a result of this approach, minimum standards and guidance are adopted to ensure sustainable design, finance, construction, supply chain management, operation and engagement are practised across upcoming and completed projects. Under our Sustainable Building Policy, all new projects target to achieve BEAM Plus or LEED Gold or above green building certifications. Meanwhile, these policies are coupled with energy efficiency improvements, which assist the Group and NWD in working towards our SV2030 strategy and carbon emissions intensity reduction targets. Such improvements consist of, for example, chiller system enhancements, building management system (BMS) upgrades and control optimisation, which would collectively contribute to more than 20% asset-level energy savings.

### **Beyond SV2030: Our Renewable Energy Roadmap**

The Group’s strategic sustainability goals have helped position NWD’s business to capture opportunities and mitigate risks posed by climate change. In keeping with the urgency of the climate crisis, we recognise the need to ramp up our efforts beyond existing programs to reduce our carbon impact. We support the findings of the Intergovernmental Panel on Climate Change (IPCC) and endorse the call for limiting global temperature rise under 1.5°C from pre-industrial levels to avoid the most adverse impacts of climate change.

To put our commitment into actions, we are prepared to take bold steps that would enable us to set science-based targets and further decarbonise in line with the Paris Agreement’s 1.5°C trajectory.

<sup>1</sup> For more, visit <https://sustainability.nwd.com.hk/sustainability-governance-policies/>.

With these ambitions in mind, we have developed a Renewable Energy Roadmap to facilitate building decarbonisation at science-based targets levels. This charts a path towards adopting 100% renewable energy within our core property business<sup>2</sup> by FY-end 2030/2031.<sup>3</sup>

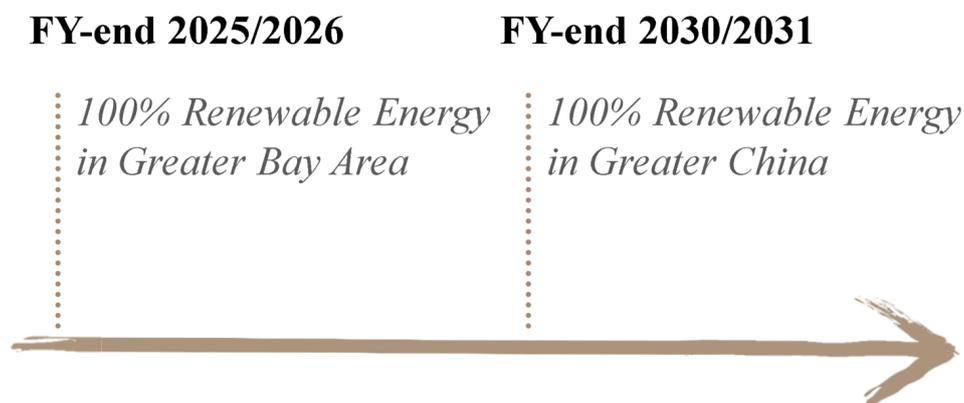


Figure 2: Renewable Energy Roadmap

To reach these milestones, we have been working closely with a utility company in Hong Kong to develop decarbonisation strategies. In addition to preparing for renewable energy procurement in Greater China, the partnership is working towards developing a renewable energy portfolio that aligns to science-based targets requirements. The extensive shift to renewables will be achieved through a three-step strategy.

- i) Pursue on-site renewable energy installations (e.g. photovoltaic, solar thermal, wind etc.) to maximise capacity of renewable power generation in all its new commercial and retail properties, and retrofit renewable technologies into existing buildings, whenever possible.
- ii) Procure offsite renewable energy through long term Power Purchase Agreements (PPAs) with 3<sup>rd</sup> party energy providers and local partners in Hong Kong and Mainland China.<sup>4</sup>
- iii) Purchase Renewable Energy Certificates (RECs) from 3<sup>rd</sup> party energy providers and local partners in Hong Kong and Mainland China to support renewable energy development.<sup>5</sup>

Given the limited capacity for onsite renewable energy in Hong Kong and across the GBA, the majority of this renewable energy will be sourced through PPAs and RECs, with emphasis on securing long term PPAs. In sourcing PPAs or RECs, NWD will prioritise certificates within its electricity market, as well as require 3<sup>rd</sup> party energy

<sup>2</sup> The roadmap covers rental properties under NWD's direct operational control, meaning properties where NWD has full authority to introduce and implement its operating policies at the operation such as major renovation or retrofit. For more, visit <https://sustainability.nwd.com.hk/wp-content/uploads/2021/01/NWD-Renewable-Energy-Roadmap.pdf>.

<sup>3</sup> NWD's financial year starts on 1 July and ends on 30 June.

<sup>4</sup> Renewable energy procurement includes direct purchases from specific generators and suppliers.

<sup>5</sup> This includes bundled and unbundled RECs such as Green Electricity Certificates (GECs), Hong Kong RECs and other equivalents accepted by Science Based Targets initiative and/or I-REC Standard.

providers to track and disclose to us the respective renewable electricity attributes based on regional frameworks and to avoid double counting. Unbundled RECs will be retired once they have been used by NWD.

On top of the extensive shift to renewables, NWD has started tracking downstream leased assets and looking into embodied carbon of building materials. This reflects a coordinated effort to align with science-based targets.

### **Rationale for Sustainability-Linked Bond Framework**

NWD was one of the first movers in sustainable financing in Hong Kong. We are committed to continuing our efforts to develop sustainable financing practices in the region. In line with international standards and guidelines, we actively leverage financing opportunities to achieve our sustainability goals, whilst closely assessing and reporting on the impact we deliver. Under the New World Development Green Finance Framework, established in September 2018, NWD has successfully raised a green bond and two green loans. NWD also established a complementary Sustainable Finance Framework in October 2020. These documents are in line with the respective Green Bond Principles 2018, Green Loan Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018. All documents are available at <https://sustainability.nwd.com.hk/sustainable-finance/>.

In 2021, NWD has chosen to create a Sustainability-Linked Bond (SLB) Framework (the “Framework”) in order to align the sustainability ambitions of the property business with financing transactions, and to support further decarbonisation beyond SV2030 targets. NWD understands that by supporting climate change mitigation through the extensive adoption of renewables, it can assume a catalytic role in addressing the climate crisis. We hope our issuance will generate momentum for sustainable development in Greater China and inspire other similar companies to join our ranks. This Framework is developed in accordance with the International Capital Market Association (ICMA) 2020 Sustainability-Linked Bond Principles<sup>6</sup> and its five components:

1. Key Performance Indicator
2. Sustainability Performance Target
3. Bond characteristics
4. Reporting
5. Verification

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<sup>6</sup> For more, visit <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>.

## Our Framework

### Scope of this framework

NWD has created this framework based on its Renewable Energy Roadmap, which supports its Scope 2 emissions reduction beyond SV2030 targets and the diversification of its energy portfolio. Property accounts for the majority of NWD’s environmental impacts and thus this framework outlines how NWD will use sustainability-linked financing to address the performance of properties within its operational control.

#### 1. Key Performance Indicator

NWD has selected the following KPI as a measure of the key progress to the Renewable Energy Roadmap.

*KPI: Percentage of Renewable Energy in Rental Properties<sup>7</sup> in the Greater Bay Area (“GBA Rental Properties”).*

As a Greater Bay Area developer, properties form the bulk of NWD’s future growth and development pipeline, covering major growth of our core property business leading up to FY-end 2025/2026.

#### 2. Sustainability Performance Target

*SPT: 100% Renewable Energy in GBA Rental Properties by FY-end 2025/2026.*

NWD has set the ambitious target by FY-end 2025/2026, 100% of the GBA Rental Properties will be supplied by renewable energy. This would represent a significant increase from 2020 levels and our commitment to adopting renewable energy in a swift and consistent manner.

Through driving the measures detailed under the Renewable Energy Roadmap, NWD is expected to achieve the targets and maintain its performance on the selected KPI:

KPI	FY2019/2020 (baseline)	FY-end 2025/2026 (target year)
% Renewable Energy in GBA Rental Properties	<1%	100%

#### 3. Bond characteristics

The bond issue will support the ambitions of NWD’s Renewable Energy Roadmap. The perimeter of the KPI or calibration of the SPT may change if there is a material change to NWD’s property business. Any such change will be communicated within the annual

<sup>7</sup> Covers exclusively properties under NWD’s direct operational control. See Appendix I for the list of GBA Rental Properties in-scope.

reporting.

If NWD is not able to achieve the SPT, then NWD will make a purchase of carbon offsets equivalent to a 25 bps increase in the coupon of the NWD Sustainability-Linked Bond for the remaining life of the bond until it is fully redeemed, as disclosed in the deal documentation.<sup>8</sup>

NWD's performance against the SPT will be reported in the Annual Report.

#### **4. Reporting**

Disclosure will be made available in our Annual Report, published in October each year until maturity of the bond. Annual Disclosure will include the following:

- 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 KPI performance against the SPT and the related impact, and timing of such impact, on the bond's financial and/or structural characteristics; and
- any information enabling investors to monitor the level of ambition of the SPT (e.g., any update in the issuers' sustainability strategy or on the related KPI/ESG governance, and more generally any information relevant to the analysis of KPI and SPT).

When feasible and possible, the annual disclosure will also provide:

- a qualitative or quantitative explanation of the contribution of the main factors, including M&A activities, behind the evolution of performance/KPI;
- illustration of positive sustainability impacts of performance improvements; and
- any re-assessments of KPIs and/or restatement of the SPT and/or proforma adjustments of baselines or KPI scope.

#### **5. Verification**

NWD has engaged an external reviewer to obtain a Second-Party Opinion of this Framework which can be viewed in the relevant section at <https://sustainability.nwd.com.hk/>.

NWD's performance against the SPT will be reported in the Annual Report until maturity of the bond. Data and information contained in the Corporate Sustainability section of the Annual Report will receive an independent limited assurance by a qualified third party in accordance with the relevant ISAE standards. From FY-end 2025/2026, additional bond-level review / assurance will be obtained prior to Annual Report disclosure from a qualified independent third party, to specifically attest to the SLB KPI SPT performance. This bond-level review / assurance report will also be made available on our corporate website.

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<sup>8</sup> Carbon offsets purchased will align to internationally reputable sources such as The Gold Standard and CCER (China Certified Emissions Reduction).

## **Appendix I**

The following details a list of GBA Rental Properties under NWD's direct operational control, and represents properties that fall within the scope of the SLB's KPI. This list is produced based on information available as of 1 January 2021 and may be subject to change as more projects are completed in the future.<sup>9</sup>

### **Completed Projects in Greater Bay Area**

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Manning House, Central

New World Tower, Central

K11 ATELIER King's Road

K11 ATELIER of Victoria Dockside, Tsim Sha Tsui

K11 MUSEA of Victoria Dockside, Tsim Sha Tsui

K11 ARTUS of Victoria Dockside, Tsim Sha Tsui

K11 Art Mall Hong Kong

KOHO, Kwun Tong

ARTISAN HUB, San Po Kong

D • PARK, Tsuen Wan

K11 Art Mall Guangzhou<sup>10</sup>

K11 ATELIER Guangzhou<sup>10</sup>

Guangzhou Park Paradise Zone 3 New Park

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<sup>9</sup> Newly completed projects within the pipeline that fall within the scope of the KPI will be added to the list after 2 full years of operation.

<sup>10</sup> Asset owned by external party and managed by NWD.