

# Second-Party Opinion

## New World Development Company Limited Sustainability-Linked Bond



### Evaluation Summary

Sustainalytics is of the opinion that the New World Development’s Sustainability-Linked Bond aligns with the Sustainability-Linked Bond Principles 2020 and considers the KPI to be relevant and material to the issuer and the SPT to be impactful. This assessment is based on the following:



**Selection of Key Performance Indicators (KPI)** New World Development Company Limited has selected the KPI ‘percentage of Renewable Energy in Rental Properties in the Greater Bay Area’ for the Sustainability-Linked Bond (SLB). Sustainalytics considers the KPI chosen to be relevant to and material for New World Development, and further considers it to be clear and credible.



**Calibration of Sustainability Performance Targets (SPTs)** New World Development Company Limited has established the SPT of increasing the share of renewable energy consumed by its Greater Bay Area rental properties from less than 1% currently to 100% by FY-end 2025/2026. Sustainalytics considers the SPT to be aligned with the issuer’s commitment to measurably reduce the carbon footprint of its business by FY-end 2029/2030. The SPT contributes to SDG 7 and SDG 11.



**Bond Characteristics** New World Development will outline in its bond offering document the penalty to be paid in case it fails to achieve the said SPT. NWD has disclosed that failure to achieve the SPT will result in annual purchase of carbon offsets equivalent to a 25 bps increase in the coupon of the issuance until bond maturity.



**Reporting** New World Development commits to report on an annual basis on its performance on the KPI in its Annual Report, which is aligned with market expectations. New World Development also commits to provide a verification report of the Company’s performance of the SPT and related impacts contained within the Annual Report. From FY2025/2026, additional bond level review or assurance will also be obtained prior to Annual Report disclosure and made available on its corporate website. Sustainalytics finds this to be in alignment with the SLB Principles.



**Verification** New World Development commits to having an independent and external assurance provider to provide limited assurance on the published KPI performance figures as well as its performance levels against the set SPT. This will be performed each fiscal year up to until the maturity of the bond which is aligned with the SLB Principles on verification.

<b>Evaluation date</b>	January 04, 2021
<b>Issuer Location</b>	Hong Kong, China

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## Introduction

New World Development Company Limited is an investment holding company founded in 1970 and based out of Hong Kong. It, along with its 100% subsidiary – New World China Land Limited (together referred to as the “Company” or “NWD”) – primarily operate a property development and management business for residential and commercial real estate mainly in Hong Kong and Mainland China. The Company also provides services such as property and facility management and infrastructure operations.

New World Development Company Limited also has majority stakes in other businesses including NWS Holdings Limited and New World Department Store China Limited (together, all entities are referred to as the “New World Group” or the “Group”).

NWD intends to issue a Sustainability-Linked Bond (SLB) in January 2021 where the failure to achieve the set Sustainability Performance Targets for the selected KPI will result in annual purchase of carbon offsets equivalent to a 25 bps increase in the coupon of the issuance until bond maturity. The selected KPI pertains to percentage of renewable energy consumed at NWD’s rental properties in the Greater Bay Area (GBA).<sup>1</sup>

NWD has engaged Sustainalytics to review the SLB and provide an opinion on the alignment of the bond with the Sustainability-Linked Bond Principles (SLBP).<sup>2</sup>

### Scope of work and limitations

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed SLB with the Sustainability-Linked Bond Principles 2020, as administered by ICMA.

As part of this engagement, Sustainalytics exchanges information with various members of NWD’s management team to understand the sustainability impact of their business processes and SPT, as well as reporting and verification processes of aspects of the SLB. New World Development Company Limited representatives have confirmed that:

- (1) They understand it is the sole responsibility of New World Development Company Limited to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) 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 Bond and should be read in conjunction with the Bond Documents. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and New World Development Company Limited. Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Bond 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 SPT of KPI but does not measure the KPI. The measurement and reporting of the KPIs is the responsibility of the Bond issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that New World Development Company Limited has made available to Sustainalytics for the purpose of this Second-party Opinion.

<sup>1</sup> The Guangdong-Hong Kong-Macau Greater Bay Area, commonly referred to as Greater Bay Area (GBA), is a megalopolis consisting of nine cities and two special administrative regions (Hong Kong and Macau) in South China.

<sup>2</sup> The Sustainability-Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icma{Issuer}.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

<sup>3</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' Opinion

### Section 1: Sustainalytics' Opinion on the Alignment of New World Development Company Limited's Sustainability-Linked Bond with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the Sustainability-Linked Bond aligns with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP). The KPI and SPT used by NWD are defined in Tables 1 and 2 below.

**Table 1: KPI definitions**

KPI	Definition
Percentage of Renewable Energy in Rental Properties in the Greater Bay Area	<p>The proportion of renewable energy generated and/or procured, expressed as the units of renewable electricity generated/procured divided by total electricity consumed by NWD's rental properties in the GBA.</p> <p>The generation and/or procurement of renewable energy is defined as:</p> <ul style="list-style-type: none"> <li>- Electricity generated from on-site renewable installations;</li> <li>- Procurement of power through long-term Power-Purchase Agreements (PPAs);</li> <li>- Purchase of bundled and unbundled Renewable Energy Certificates (RECs).</li> </ul> <p>Rental properties refer to properties described in Appendix 1 that cumulatively represent over 50% of the area in square meters that is under NWD's direct operational control. This KPI covers NWD's scope 2 emissions.</p> <p>NWD has also confirmed that the Company will purchase RECs such as Green Electricity Certificates (GECs), Hong Kong RECs and other equivalents accepted by I-REC Standard and retire or retain the Energy Attribute Certificates (EACs) issued by the energy generation facility from which it wants to claim the consumption of renewable energy.</p>

**Table 2: SPT and Past Performance**

KPI	FY2019/2020 (baseline)	SPT FY-end 2025/2026 (Target year)
Percentage of renewable energy in rental properties in the GBA	<1%	100%

#### 1) Selection of Key Performance Indicators (KPIs)

##### Definition and methodology of KPI

- NWD's Sustainability-Linked Bond includes one KPI: The percentage of Renewable Energy in Rental Properties in the GBA.
- The KPI defines the generation and/or procurement of renewable Energy as:
  - Energy generated through on-site renewable power projects, such as including solar photovoltaic, solar thermal, and wind power;
  - Procurement of energy through long-term power-purchase agreements (PPAs) from independent, third-party energy providers and local partners in Hong Kong and Mainland China; and

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- Purchase of Energy Attribute Certificates (EACs) that could include bundled and unbundled RECs<sup>4</sup> such as Green Electricity Certificates (GECs), Hong Kong RECs, and other equivalents accepted by the International-REC Standard.
- Rental properties in the GBA considered in this KPI refer to rental properties that are under NWD's direct operational control and for which it has full authority to implement its operating policies such as major renovation or retrofit (See Appendix 1 for latest list of NWD's properties).
- Sustainalytics finds the definition to be clear and measurable. Sustainalytics recognizes that products such as EACs should be verified by an independent third-party, especially with regards to its credibility of low-carbon energy source. In case of certificates that are purchased directly and certification programs are not used/available, exclusive claims must otherwise be verified. Sustainalytics recommends NWD to purchase and transparently report on such procurement of renewable energy in its reporting on an annual basis until the observation date of the target.

### Relevance and Materiality of KPI

- Sustainalytics considers the level of renewable energy in buildings as relevant and material issue for NWD based on the following:
  - It is estimated that the building sector accounts for over 90% of Hong Kong's electricity consumption.<sup>5</sup> Hong Kong has high dependency on fossil fuels, which account for over 75% of the fuel mix for electricity generation.<sup>6</sup> Therefore, procuring renewable energy to power buildings will help decarbonize Hong Kong's electricity sector. NWD has communicated to Sustainalytics that rental properties are the only assets that are under direct operational control of the Company whereas the other properties are held or being constructed for sale to third parties. In that context, rental properties are relevant for the purpose of this Framework as it encompasses the assets where NWD has the authority to implement operating policies in order to measure performance under the KPI.
  - Sustainalytics notes that the KPI addresses GBA properties held by the Company that cumulatively represent over 50% of the area (in square meters) of all properties under its direct operational control as of 1 January 2021 (projected to be 74% or more of electricity consumption by such properties by FY-end 2025/2026).<sup>7</sup>
  - The issuer of financing under this Framework is New World Development Company Limited – the holding company of the Group. The Group has set out environmental targets in its Sustainability Vision 2030 as part of which NWD has committed to reducing energy and carbon intensity by 50% by FY-end 2029/2030 as compared to FY2014/2015 levels.<sup>8</sup>
  - Based on the data provided by NWD, Scope 1 and 2 emissions stood at 136,800 tonnes CO<sub>2</sub>e in FY2018/2019 and 149,360 tonnes CO<sub>2</sub>e in FY2019/2020.<sup>9</sup> In FY2018/2019 and FY2019/20, Scope 2 emissions accounted for over 90% of the total Scope 1 and 2 emissions. The increase in use of renewable energy at its properties is expected to have a direct impact by reducing Scope 2 GHG emissions and hence, is expected to contribute to achievement of environmental targets laid out above.
  - Sustainalytics notes that the emissions data above represents 22.2% and 25.3% of the total Scope 1 and 2 emissions reported by the Group for FY2018/2019 and FY2019/2020 respectively.<sup>10</sup> Further, properties within the scope of the KPI represent slightly over 50% of the total area managed by NWD whereas the remaining properties are not covered within this KPI. Accordingly, Sustainalytics recognizes that a significant proportion of Scope 1 & 2 emissions of the Group are not covered by the KPI defined in this Framework which only covers NWD's core property business.

<sup>4</sup> RECs has been defined by the EPA as "A market-based instrument that represents the property rights to the environmental, social and other non-power attributes of renewable electricity generation. RECs are issued when one megawatt-hour (MWh) of electricity is generated and delivered to the electricity grid from a renewable energy resource." Read more: <https://www.epa.gov/greenpower/renewable-energy-certificates-recs#:~:text=A%20renewable%20energy%20certificate%2C%20or,attributes%20of%20renewable%20electricity%20generation.>

<sup>5</sup> South China Morning Post, How high-density, high-rise Hong Kong uses green buildings to help fight climate change, November 2019, at: <https://www.scmp.com/presented/lifestyle/topics/building-our-green-future/article/3037555/how-high-density-high-rise>

<sup>6</sup> Environment Bureau, Hong Kong, Fuel Mix for Electricity Generation, Accessed on December 2020, at: <https://www.enb.gov.hk/sites/default/files/en/node2605/Consultation%20Document.pdf>

<sup>7</sup> Estimates provided to Sustainalytics by NWD.

<sup>8</sup> New World Development, New World Sustainability Vision 2030, (accessed on 15 July 2020), at: <https://sustainability.nwd.com.hk/sustainability-vision-2030/>

<sup>9</sup> NWD website, Sustainability Performance Data at: [https://sustainability.nwd.com.hk/wp-content/uploads/2020/10/New\\_World\\_Group\\_Sustainability\\_Performance\\_Data\\_2020\\_EN.pdf](https://sustainability.nwd.com.hk/wp-content/uploads/2020/10/New_World_Group_Sustainability_Performance_Data_2020_EN.pdf)

<sup>10</sup> Ibid

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- Furthermore, Scope 3 emissions which include embodied carbon<sup>11</sup> and form a substantial portion of a building's total emissions are neither currently tracked nor covered by the KPI defined in this Framework. Based on recent studies (2019), embodied emissions account for approximately 20-25% of life-cycle emissions of buildings that meet energy performance regulatory requirements, whereas this share increases to 45-50% for highly energy-efficient buildings and escalates to 90% in some cases.<sup>12</sup> NWD has communicated to Sustainalytics that the company has started to track Scope 3 emissions data.
- Sustainalytics nonetheless considers the KPI to be of sufficient scope to be considered relevant and material to NWD's sustainability performance, noting that the KPI captures over 50% of NWD's total area under operational control and the impact of renewable energy procurement on reducing Scope 2 emissions.

### Ability to be benchmarked

The selected KPI can be objectively measured and is benchmarkable against criteria for renewable energy options under RE100 Technical Criteria<sup>13</sup> and the Scope 2 emissions reduction targets under SBTi Criteria and Recommendations<sup>14</sup>.

### Overall assessment

In Sustainalytics' opinion the selected KPI are relevant and material to NWD. Sustainalytics considers the definition of the selected KPI to be clear and credible.

## 2) Calibration of Sustainability Performance Targets (SPTs)

### Alignment with issuer's sustainability strategy

- NWD has set the following SPT for its KPI:
  - To achieve use of 100% renewable energy in its GBA rental properties by FY-end 2025/2026.
- Sustainalytics considers the SPT to be aligned with NWD's sustainability strategy (please refer to Section 2 for analysis of the credibility of NWD's sustainability strategy).
  - To help achieve and go beyond the Group target to reduce energy and carbon intensity by 50% by FY-end 2029/2030 (compared to FY2014/2015 baseline)<sup>15</sup>, the Company has developed a Renewable Energy Roadmap.<sup>16</sup> Under this Roadmap, NWD plans to source 100% renewable energy, for all its core properties over which it has direct operational control, by FY-end 2030/2031.
  - NWD also supports and is a signatory to several low-carbon strategy and movements such as the Hong Kong's Long-term Decarbonization Strategy<sup>17</sup> and the Hong Kong Green Building Council's Advancing Net Zero movement<sup>18</sup> (See section 2 for further details).

### Strategy to achieve the SPT

- NWD intends to achieve the SPT primarily through procurement of renewable power from long-term PPAs supplemented by development of on-site renewable projects and purchase of EACs.
  - PPAs contemplated under this Framework will have a tenor of 5 or more years.

<sup>11</sup> Embodied carbon has been defined as the GHG emissions associated with the production of a building, including the extraction, manufacturing, and transportation of construction materials, as well as construction processes. Read more: <https://sbcanada.org/wp-content/uploads/2018/04/Embodied-Carbon-White-Paper.pdf>

<sup>12</sup> Embodied GHG emissions of buildings-The hidden challenge for effective climate change mitigation, (2020), at: <https://www.sciencedirect.com/science/article/pii/S0306261919317945>

<sup>13</sup> RE100 Climate Group, RE100 Technical Criteria, January 2018, at: <https://www.there100.org/sites/re100/files/2020-10/RE100%20Technical%20Criteria.pdf>

<sup>14</sup> Science Based Targets, SBTi Criteria and Recommendations, April 2020 at: <https://sciencebasedtargets.org/resources/legacy/2019/03/SBTi-criteria.pdf>

<sup>15</sup> New World Development, New World Sustainability Vision 2030, (accessed on 15 July 2020), at: <https://sustainability.nwd.com.hk/sustainability-vision-2030/>

<sup>16</sup> NWD's Renewable Energy Roadmap, January 2021, at: <https://sustainability.nwd.com.hk/wp-content/uploads/2021/01/NWD-Renewable-Energy-Roadmap.pdf>.

<sup>17</sup> The Government of the Hong Kong Special Administrative Region, Public engagement on Long-term Decarbonization Strategy launched, June 2019, at: <https://www.info.gov.hk/gia/general/201906/14/P2019061400309.htm>

<sup>18</sup> Hong Kong Green Building Council, Advancing Net Zero, (accessed in 15 July 2020), at: <https://www.hkgbc.org.hk/eng/global-movement/world-gbc/advancing-net-zero/index.jsp>

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- NWD commits that EACs will comprise of bundled and unbundled RECs such as Green Electricity Certificates (GECs), Hong Kong RECs and/or other equivalents accepted by I-REC Standards list of rules, regulations and best practices which are to be used by all attribute tracking systems. The I-REC Standard is acknowledged by reporting frameworks including The Greenhouse Gas (GHG) Protocol, CDP and RE100, as an appropriate and credible tracking instrument and therefore, enables companies to credibly demonstrate renewable energy consumption and report lower Scope 2 emissions.<sup>19</sup>
- NWD has confirmed that any unbundled RECs purchased will be retired once used.
- NWD has installed onsite renewable energy including solar photovoltaic, solar thermal, and wind power at two of its directly controlled properties so far and is establishing a procurement process to source renewable energy.

### **Ambitiousness, Baseline and Benchmarks**

- NWD estimates that its selected buildings in the GBA to which its SPT applies currently source less than 1% of their energy from renewable energy.<sup>20</sup>
- NWD is intending to achieve an SPT of 100% renewable energy by FY-end 2025/2026, mainly from procurement with small proportion from onsite generation. Sustainalytics notes that such target exceeds the SBTi's criteria on setting Scope 2 emissions reduction targets which identify 80% renewable energy by 2025 and 100% by 2030 as credible thresholds for sourcing renewable energy that is consistent with 1.5-degree scenario. Additionally, this criteria under SBTi is broadly consistent with recommendations suggested under RE100 Criteria.
- Sustainalytics considers NWD's SPT to be ambitious on an overall company-level as the SPT is intended to go well-beyond criteria and recommendations under the recognized benchmarks as well as the projection that over 74% of NWD's electricity consumption will be covered under the scope by FY-end 2025/2026.

### **Overall Assessment**

Sustainalytics considers NWD's SPT to be consistent with its overall sustainability strategy and considers its SPT to be credible and ambitious.

### **3) Bond characteristics**

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NWD commits to outline in its bond offering document the penalty to be paid in case it fails to achieve the set SPT. NWD has disclosed that that penalty for not achieving the SPT will result in an annual purchase of carbon offsets equivalent to a 25 bps increase in the coupon of the issuance until bond maturity. NWD has committed that Carbon offsets purchased will align with the Gold Standard<sup>21</sup> and the China Certified Emission Reductions (CCERs)<sup>22</sup>. Sustainalytics does not opine on the adequacy of the penalty imposed for not achieving the set SPT.

### **4) Reporting**

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NWD commits to report on an annual basis, in its Annual Report, its performance on the selected KPI, namely 'Percentage of renewable energy in rental properties in the GBA'. NWD also commits to provide a verification report of the Company's performance of the SPT and related impact contained within the Annual Report. From FY2025/2026, additional bond-level review or assurance will also be obtained prior to Annual Report disclosure and made available on its corporate website<sup>23</sup>. In addition, NWD will disclose any material changes that affect the performance of the KPI and achievement of the SPT, including, any mergers and acquisitions, any re-assessments of KPIs or restatement of the SPT, and any adjustments to baselines or the KPI. Sustainalytics finds this to be in alignment with the SLB Principles.

### **5) Verification**

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NWD commits to having an independent and external assurance provider to provide limited assurance on the published KPI performance figures as well as its performance levels against the set SPT. This will be performed each fiscal year up to the maturity of the bond which is aligned with the SLB Principles on verification.

<sup>19</sup> Natural Capital, International RECs, accessed in December 2020, at: [https://assets.naturalcapitalpartners.com/downloads/I-REC\\_Factsheet.pdf](https://assets.naturalcapitalpartners.com/downloads/I-REC_Factsheet.pdf)

<sup>20</sup> Science Based Targets, SBTi Criteria and Recommendations, April 2020 at: <https://sciencebasedtargets.org/resources/legacy/2019/03/SBTi-criteria.pdf>

<sup>21</sup> Gold Standard, read more at: <https://www.goldstandard.org/>

<sup>22</sup> China Certified Emission Reduction (CCERs), read more at: [https://www.undp.org/content/dam/china/docs/Publications/UNDP-CH-Environment%20China%20Carbon%20Market%20Report%202017\\_En.pdf?download](https://www.undp.org/content/dam/china/docs/Publications/UNDP-CH-Environment%20China%20Carbon%20Market%20Report%202017_En.pdf?download)

<sup>23</sup> New World Development Company Limited's corporate website: <http://www.nwd.com.hk>



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### Alignment with Sustainability-Linked Bond Principles 2020

Sustainalytics has determined that the NWD's January 2021 SLB aligns with the five core components of the Sustainability-Linked Bond Principles (2020).

## Section 2: Assessment of New World Development Company Limited's Sustainability Strategy

### Credibility of New World Development Company Limited sustainability strategy

As per Sustainalytics' ESG rating report, NWD is considered be a leader on ESG issues compared to its industry peers. The Company's sustainability and ESG related issues are directly overseen by the board-level Sustainability Committee, suggesting that these are integrated in core business strategy.

In line with its long-term commitment to building sustainable communities, NWD has integrated sustainability considerations across its business model by establishing the New World Sustainability Vision 2030.<sup>24</sup> The Vision aims to promote a greener future by achieving operational resource efficiency and mitigating and adapting to climate change impacts. NWD's environmental targets include the reduction of energy and carbon intensity by 50% by FY-end 2029/2030 as compared to FY2014/2015 across the New World Group's business properties; the reduction of water intensity by 25% by FY-end 2029/2030 as compared to FY2014/2015; and the reduction of waste to landfill intensity by 15% by FY-end 2029/2030 as compared to FY2014/2015 within the Company's construction business. NWD reports its progress on the mentioned targets in its 2019 Sustainability Report.<sup>25</sup> Some of the progress made by FY-end 2018/2019 compared to FY2014/2015 baseline include following: (i) 21% reduction in energy intensity measured in MWh/ million HKD revenue, (ii) 29% reduction in carbon intensity (tCO<sub>2</sub>e/million HKD revenue), (iii) 8% reduction in water intensity (m<sup>3</sup> /million HKD revenue) and (iv) 5% reduction in waste to landfill intensity (tonnes/million HKD revenue).<sup>26</sup>

Moreover, NWD has internally developed the Renewable Energy Roadmap to act on its commitment to decarbonize in line with the Paris Agreement 1.5°C trajectory. The Roadmap sets a clear goal towards adopting 100% renewable energy within the Company's core property business by FY-end 2030/2031 through reliance on three forms of procurement detailed in Section 1. In addition to its goals and performance, NWD supports Hong Kong's Long-term Decarbonization Strategy<sup>27</sup> by participating in the Energy Saving Charter<sup>28</sup> as well as developing energy and carbon emission targets. NWD is also a signatory to Business Environment Council's Low Carbon Charter<sup>29</sup> and Hong Kong Green Building Council's Advancing Net Zero movement.<sup>30</sup>

### New World Development Company Limited's environmental and social risk management

Overall, we note that the ESG risk management of New World Development Company Limited's are considered strong. Sustainalytics also recognizes that while the New World Development Company Limited's defined targets are impactful, we acknowledge that achieving the SPT bears environmental and social risks related to waste generated during construction, land use and biodiversity issues associated with large-scale infrastructure projects, occupational health and safety of workers, as well as possibility of deteriorating community relations as a result of inadequate public consultation. Sustainalytics is of the opinion that NWD is able to manage and/or mitigate potential risks through the implementation of the following:<sup>31</sup>

NWD has integrated ESG risk identification and management considerations into its overall Risk Management Policy. Risk owners across the group are required to undertake and report risk review exercise, which includes reviewing ESG related risks such as - bribery and corruption, business ethics, occupational health and safety and climate change. Any material ESG risks identified are reported to NWD's Sustainability Committee. The Company also has an early risk flagging mechanism, under which it facilitates the identification and assessment of emerging risks, including ESG related risks. Additionally, NWD established a sustainability

<sup>24</sup> NWD, "Sustainability Vision 2030", at: <https://sustainability.nwd.com.hk/sustainability-vision-2030/>

<sup>25</sup> NWD, "Sustainability Report 2019", (2019), at: [https://sustainability.nwd.com.hk/wp-content/uploads/2020/08/NWD\\_SR2019\\_EN.pdf](https://sustainability.nwd.com.hk/wp-content/uploads/2020/08/NWD_SR2019_EN.pdf)

<sup>26</sup> Ibid

<sup>27</sup> The Government of the HKSAR, "Public engagement on Long-term Decarbonization Strategy launched", (2019), at:

<https://www.info.gov.hk/gia/general/201906/14/P2019061400309.htm>

<sup>28</sup> Environment Bureau, The Government of HKSAR, "About Energy Saving Charter & 4T Charter Schemes", (2020), at:

<https://www.energysaving.gov.hk/esc2019/en/charter/index.html>

<sup>29</sup> Business Environment Council, "Background and Timeline", at: <https://bec.org.hk/en/bec-low-carbon-charter>

<sup>30</sup> Hong Kong Green Building Council, "Advancing Net Zero", at: <https://www.hkgbc.org.hk/eng/global-movement/world-gbc/advancing-net-zero/index.jsp>

<sup>31</sup> NWD website, Risk Management Policy at: [https://sustainability.nwd.com.hk/wp-content/uploads/2020/10/NWD-Risk-Management-Policy-v1.3\\_202007-update-2020.09.pdf](https://sustainability.nwd.com.hk/wp-content/uploads/2020/10/NWD-Risk-Management-Policy-v1.3_202007-update-2020.09.pdf)

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governance structure, Sustainability Committee, which comprises one independent non-executive director and two executive directors. This committee advises on the NWD's sustainability strategy and oversees the Company's ESG risks and opportunities with a focus on climate related risks and opportunities.

Under its Health and Safety Policy, NWD commits to building a healthy and safe workplace for its employees.<sup>32</sup> In its construction business, the Company strive to ensure safety of employees and contractors in day-to-day operations and provides regular training on operational guidelines, quality control and environment, health and safety topics. 100% of NWD's construction operations in Hong Kong are certified to ISO 14001 Environmental Management System and about 66% of its office building (gross floor area) in the Hong Kong portfolio are certified to ISO 50001 Energy Management System.

NWD conducts internal and external stakeholder engagement to strengthen its ESG governance. The Company uses various channels such as surveys, interviews, focus groups, townhall meetings and forums to engage with multiple stakeholder groups, including employees, tenants, customers, supply chain, local communities, investors, the academic community, NGOs, government and peer companies. Furthermore, NWD confirmed to Sustainalytics that the Company implements local community consultation process before and during the design and development stages of large-scale infrastructure projects.

Overall, Sustainalytics considers that NWD has adequate measure to mitigate risks that could be associated with achieving 100% renewable energy in the Greater Bay Area rental properties by FY-end 2025/2026.

### Section 3: Impact of the SPT chosen

#### Importance of Promoting Renewable Energy Building Sector

In 2017, Hong Kong's residential and commercial sector accounted for 93% of the region's electricity consumption<sup>33</sup> and contributed to over 60% of the region's total carbon emissions.<sup>34</sup> Furthermore, in 2017, air conditioning and lighting alone accounted for 42% of the regions' electricity consumption. Recognizing the building sector's large carbon footprint, Hong Kong has established the Energy Saving Plan for Hong Kong's Built Environment, under which an emission intensity reduction target of 40% by 2025 as compared to 2005 intensity levels has been established.<sup>35</sup> Hong Kong has also launched the Hong Kong Climate Action 2030+ plan<sup>34</sup> in 2017, under which it seeks to reduce the region's carbon intensity by 65% to 70% by 2030 using 2005 as the base year. This translates into a 26% to 36% absolute emission reduction for Hong Kong.<sup>34</sup>

Based on the above context, NWD's investments in achieving 100% renewable energy in its rental properties will help contribute meaningfully to Hong Kong's climate goals while reducing the carbon footprint of the building sector.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability-linked bond advances the following SDG goals and targets:

KPI	SDG	SDG target
Percentage of renewable energy in rental properties in the GBA	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

<sup>32</sup> NWD, "Health and Safety Policy", August 2020, at: [https://sustainability.nwd.com.hk/wp-content/uploads/2020/10/Health\\_and\\_Safety\\_Policy\\_EN.pdf](https://sustainability.nwd.com.hk/wp-content/uploads/2020/10/Health_and_Safety_Policy_EN.pdf)

<sup>33</sup> EMSD, "Hong Kong End-Use Energy Data 2019", (2019), at: [https://www.emsd.gov.hk/filemanager/en/content\\_762/HKEEUD2019.pdf](https://www.emsd.gov.hk/filemanager/en/content_762/HKEEUD2019.pdf)

<sup>34</sup> Government of Hong Kong, "Hong Kong's Climate Action Plan 2030+", (2017), at:

<https://www.enb.gov.hk/sites/default/files/pdf/ClimateActionPlanEng.pdf>

<sup>35</sup> Government of Hong Kong, Environment Bureau, "Energy Saving Plan for Hong Kong's Built Environment 2015- 2025+", (2015), at:

<https://policy.asiapacificenergy.org/sites/default/files/EnergySavingPlanEn.pdf>



## New World Development Sustainability-Linked Bond

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### Conclusion

NWD intends to issue Sustainability-Linked Bond which will tie the financial structure of the bond to the achievements of the following SPT:

1) To achieve use of 100% renewable energy in its GBA rental properties by FY-end 2025/2026.

Sustainalytics performed a review of the SLB information and considers the KPIs to be relevant and material and aligned with NWD's sustainability strategy. While no external benchmark is used, Sustainalytics considers the past performance benchmark chosen to be adequate. Sustainalytics views the SPT to be ambitious, highlighting their alignment to the SBT trajectory and the clearly defined baseline. Furthermore, Sustainalytics considers the bond characteristics and reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers New World Development Company Limited's SLB to be in alignment with the five core components of the SLBP and the prospective of achievement of the SPT to be impactful.

## Appendix 1

### List of Relevant Rental Properties in GBA<sup>36</sup> as of 1 January 2021

Sr No	Building
1	Manning House, Central
2	New World Tower, Central
3	K11 ATELIER King's Road
4	K11 ATELIER of Victoria Dockside, Tsim Sha Tsui
5	K11 MUSEA of Victoria Dockside, Tsim Sha Tsui
6	K11 ARTUS of Victoria Dockside, Tsim Sha Tsui
7	K11 Art Mall Hong Kong
8	KOHO, Kwun Tong
9	ARTISAN HUB, San Po Kong
10	D • PARK, Tsuen Wan
11	K11 Art Mall Guangzhou <sup>37</sup>
12	K11 ATELIER Guangzhou <sup>37</sup>
13	Guangzhou Park Paradise Zone 3 New Park

<sup>36</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>37</sup> Asset owned by external party and managed by NWD.

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