Building Climate Resilience in Our Places

We recognise the possible risks and opportunities that climate change may present to our operations. Our disclosures make reference to the recommendations of IFRS S2 Climate-related Disclosures ("IFRS S2") and Task Force on Climate-Related Financial Disclosures ("TCFD"), across the four essential pillars: governance, strategy, risk management and metrics and targets.

Governance on Climate-related Issues

The ESG Steering Committee, which is chaired by the CEO, is responsible for overseeing the Group's overall ESG strategies, reviewing and endorsing plans and monitoring the progress. The ESG Planet Sub-Committee ensures climate-related considerations are effectively embedded into strategic decision-making and daily operations. More details on our ESG governance structure can be found in the "Strengthening Our ESG Governance Structure" section.

The ESG Department drives Group-wide initiatives and coordinates with business units to assess and monitor climate-related risks and opportunities. This supports strategic planning and contributes to the sustainability of property lifecycles.

Strategy on Climate-related Issues

We recognise the significant impacts of climate change and are dedicated to responding effectively. In pursuit of this goal, we have developed climate-resilient strategies and policies that guide our response. Our Climate Change Policy serves as our guideline to integrate climate change considerations into the decision-making process of the Group's businesses, activities, supplies, products and services and mitigate the impact of our business operations on the climate.

To guide our transition to a low-carbon society, we have released "CCG 3050+" roadmap, aligning with the 1.5°C pathway and approved by SBTi. This strategic roadmap underscores the Group's commitment to achieving significant carbon reductions across our operations and value chain, supporting our efforts to combat climate change and drive sustainable development.

To promote sustainability, minimise environmental impact, adopt sustainable designs, and strive for Net Zero, the Group has implemented and updated the Guidelines for Sustainable Design and Procurement that guides the sustainability considerations of the project design and construction processes, specifying both mandatory and optional sustainability elements to ensuring that our projects consistently meet and exceed sustainable design standards.

Since 2021, the Group has implemented a Green Finance Framework to leverage sustainable financing for eligible green and social projects that support our business strategy and vision. As of 30 June 2024, we have jointly secured 34.7 billion (HKD) of sustainable financing, including five green loans and two sustainability-linked loans.

The Group recognises that businesses need to address both physical and transition risks associated with climate change, as these risks are affecting our properties, operations, supply chain, and the safety and well-being of our employees. Alongside the challenges posed by climate change, there are also significant opportunities to be explored. We have identified climate-related risks and opportunities that could bring potential impacts to our business and operations.

To mitigate potential disruptions and bolster our resilience against climate-related risks, as well as capitalise on emerging opportunities, the Group has diligently devised tailored responses and strategies. These robust measures are aimed at minimising potential losses, accelerating the transition to a low-carbon economy, and fortifying our ability to adapt to the evolving risks posed by climate change.

Impacts and Responses to Physical and Transition Risks

Physical Risk Drivers	Potential Impacts to the Group	Areas for Consideration
Drought Stress 	• Increased water consumption costs • Reduced access to potable water	• Inspect systems regularly to fix leaks • Upgrade to water-saving fixtures and recycling systems
Heat Stress 	• Reduced tenant and occupant comfort • Higher energy consumption for cooling	• Conduct energy audits and upgrade insulation, façades, and windows to improve efficiency • Maintain and replace HVAC systems with energy-efficient models and advanced features • Monitor weather warnings and use shading devices to reduce heat gain and cooling loads
Hurricanes and Typhoons 	• Significant building damage and loss • Increased risk of ignition and explosion	• Conduct regular inspections to identify structural wear or instability • Secure outdoor and rooftop equipment with stable bases and anchor bolts • Inspect, repair, and upgrade to impact-resistant windows and doors • Train staff on emergency protocols for hurricanes and typhoons
Wildfire 	• Damage to building infrastructure • Property loss and safety hazards	• Use fire-resistant building materials and install barriers to slow fire spread • Designate multiple evacuation routes for safe exits during emergencies
Surface Water Flood and Coastal Flood 	• Damage to building infrastructure • Increased repair cost for basements and critical utilities • Business interruptions leading to loss of revenue • Floodwater can block access routes	• Install flood barriers at main entrances and sump pumps to manage water during floods • Regularly clear drains, gutters, and downspouts to prevent blockages • Enhance emergency plans, train staff on flood prevention protocols, and monitor weather warnings • Designate multiple evacuation routes for accessibility during emergencies
Landslide 	• Damage to foundations • Landslides can block access routes • Business interruptions leading to loss of revenue	• Inspect slopes and vegetation regularly, and plant deep-rooted vegetation to prevent erosion and enhance stability • Monitor landslip warnings and designate multiple evacuation routes for safety

Transition Risk Drivers	Potential Impacts to the Group	Areas for Consideration
Policy and Legal 	• Strengthened regulations, building codes and standards on building energy efficiency • Hong Kong's plan to establish carbon pricing scheme and the launch of the China trial carbon trading market • Additional operating cost for GHG emissions	• Conduct building energy audits to ensure compliance • Develop internal future-proof targets to prepare ahead for regulatory transition to more stringent building codes • Review material sources of carbon exposure from time to time and estimate the financial impact on the Group's operations • Conduct a comprehensive study on Internal Carbon Pricing ("ICP") to explore the conceptual framework of ICP and details on implementation to advance our climate transition
Technology 	• Emerging technologies in building construction and property management	• Invest in green technology and commercially viable alternative construction materials • Leverage partnerships with different stakeholders to drive innovative solutions for sustainable development • Proactively support tech ventures to translate research outcomes into real-world solutions to foster the Group's climate and energy transition capabilities
Market 	• Growing expectations from customers for green and energy efficient properties	• Integrate sustainability, technology and innovation into our building design and daily operation • Develop internal future-proof targets to further meet consumer demand on green building space
Reputation 	• Higher expectations from customers and more stringent climate disclosure requirements from financiers, impacting how company manages and discloses its climate risk and opportunities	• Enhance sustainability disclosure and continue to disclose our ESG-related information annually • Continue to conduct climate risk assessment, disclose potential climate risks, and enhance the breadth and depth of the disclosure • Strengthen engagement efforts with tenants and relevant stakeholders in climate resilience and sustainability

Strategies to Harness Opportunities

Climate Opportunities	Description and Impacts	Areas for Consideration
Digitalisation and Proptech 	• Implementation of new technologies in building construction and property management to address the climate transition needs, such as the use of smart technologies to enhance energy saving	• Conduct feasibility studies and integrate sustainability, technology and innovation into our building design and daily operation • Adopt research and development ("R&D") on smart technology adoption in buildings • Develop smart apps and consumer engagement technology on low carbon living • For more information, please refer to the "Cultivating Technological Solutions through Strategic Partnerships" sections of this Report
Consumer Preference 	• Growing expectations from customers for green and energy efficient properties, which will require for innovations, strategies, and systems to compete for higher rents and valuations • Decreased asset valuation of properties with high climate exposure	• Integrate sustainability, technology and innovation into our building design and daily operation • Set targets on obtaining green building certifications. Currently, the Group aims to attain the 2nd-highest rating of BEAM Plus for 100% new major project, and target the 2nd-highest rating for LEED and WELL • For more information, please refer to the "Innovating Green Building Design" and "Managing Our Energy Usage and Carbon Footprint" sections of this Report
Renewable Energy Growth 	• Adoption of renewable design and renewable resources as the ways to decarbonise buildings, such as the use of solar panel and energy	• Conduct feasibility studies to expand renewable energy use and green technology adoption • Consider renewable energy as building option • Procure Renewable Energy Certificates to support renewable energy initiatives
Green Finance 	• Increasing trend of green and sustainable finance, allowing businesses to access lower-cost capital which incentivise investment in green and climate-resilient projects and R&D	• Continue to invest more in low carbon projects and enhancement of sustainability performance and obtain funding • Consider enhancing disclosure of use of proceeds and progress achieved by projects funded by existing green loans to demonstrate credibility • For more information, please refer to the "Investing in Sustainability" section of this Report

Risk Management on Climate-related Issues

A robust climate risk management is crucial for a successful journey towards decarbonisation. Our Group has adopted an active approach to ensure accurate identification of climate risks based on the latest scientific research, and we are making significant progress towards achieving our climate goals. In addition, climate-related consideration has been integrated into the Group's Enterprise Risk Management ("ERM") framework. As part of this framework, we will identify, assess and address the potential impacts of climate-related risks on our operations, supply chain and business model, alongside other risks. This holistic approach will enhance the management of climate-related topics and improve our overall resilience against the changing climate.

Based on the identified climate-related risks, the Group has conducted scenario analysis to better understand the potential impacts of climate change over the short, medium, and long term. For the climate-related physical risk assessment study and scenario analysis, it comprises 42 existing buildings and five new construction project sites. We have considered the exposure of assets to climate hazards under different scenarios and each building's vulnerability. The assessment evaluated various climate hazards, including drought stress, heat stress, hurricanes and typhoons, wildfire risk, surface water floods, coastal floods, and landslides. We also conducted a scenario analysis for transition risks and estimated the potential financial implications for the identified transition risks and opportunities detailed in our scenarios.

Physical Risks

Understanding climate exposure involves developing scenarios to project future changes in variables. For physical risks scenario analysis, downscaled climate change projections were sourced from the Intergovernmental Panel on Climate Change ("IPCC"), NASA, the Hong Kong Observatory, and academic research. Three climate scenarios and three time horizons of short, mid and long-term have been selected to evaluate future risks.

Climate Projections of Physical Risks Scenario Analysis

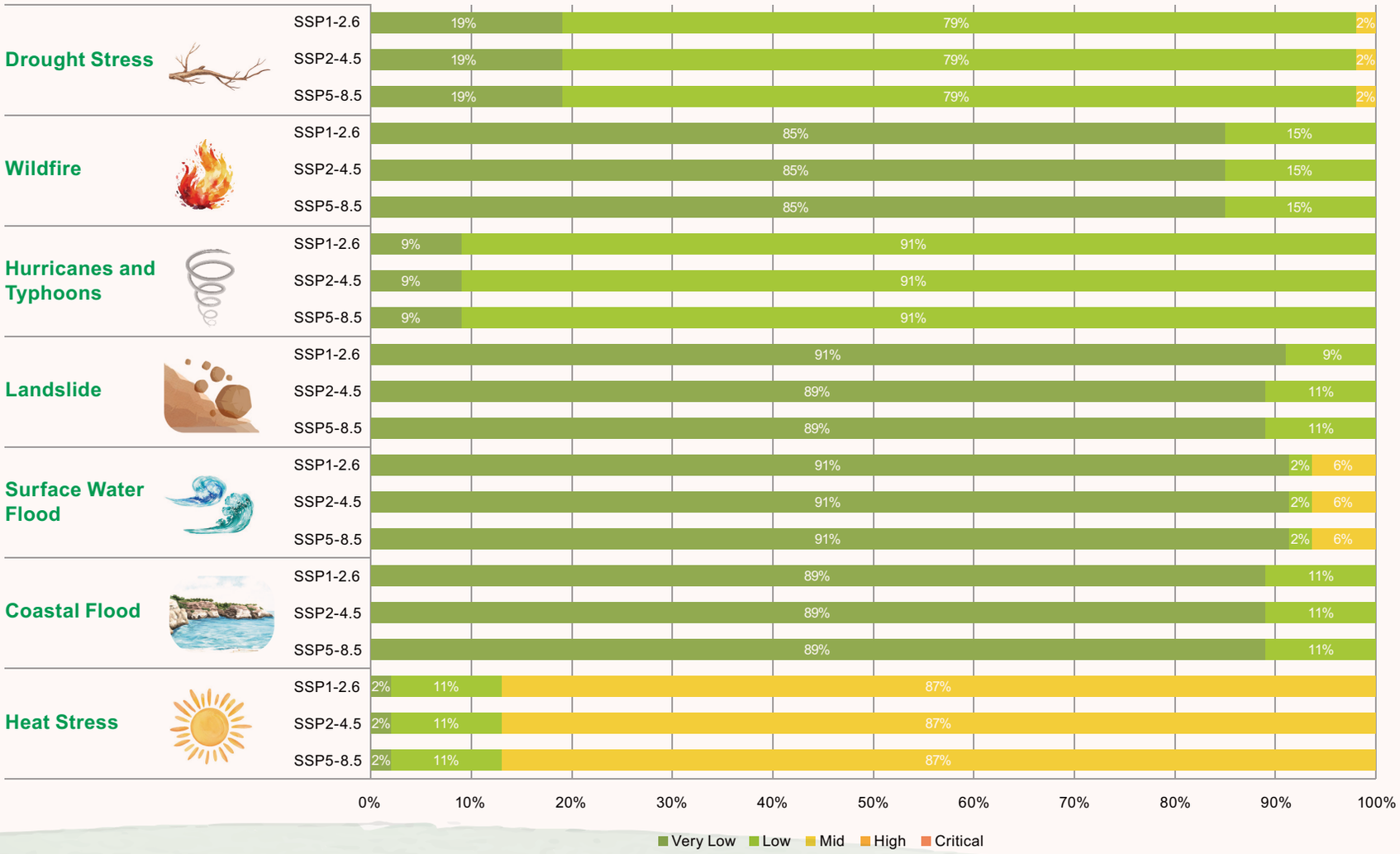
Timeframe	Representative Year
Short-term	2030
Mid-term	2050
Long-term	2100

Climate Scenario	Description	Global Surface Temperature Increase (by 2100)
SSP1-2.6/Low-Emission	Low-emission, sustainable future, aligned with Paris Agreement	1.8°C
SSP2-4.5/Moderate Emissions	Moderate emissions and climate policies, balanced view	2.7°C
SSP5-8.5/High-Emissions	High-emission, fossil fuel-intensive, limited climate policies, high-contrast	4.4°C

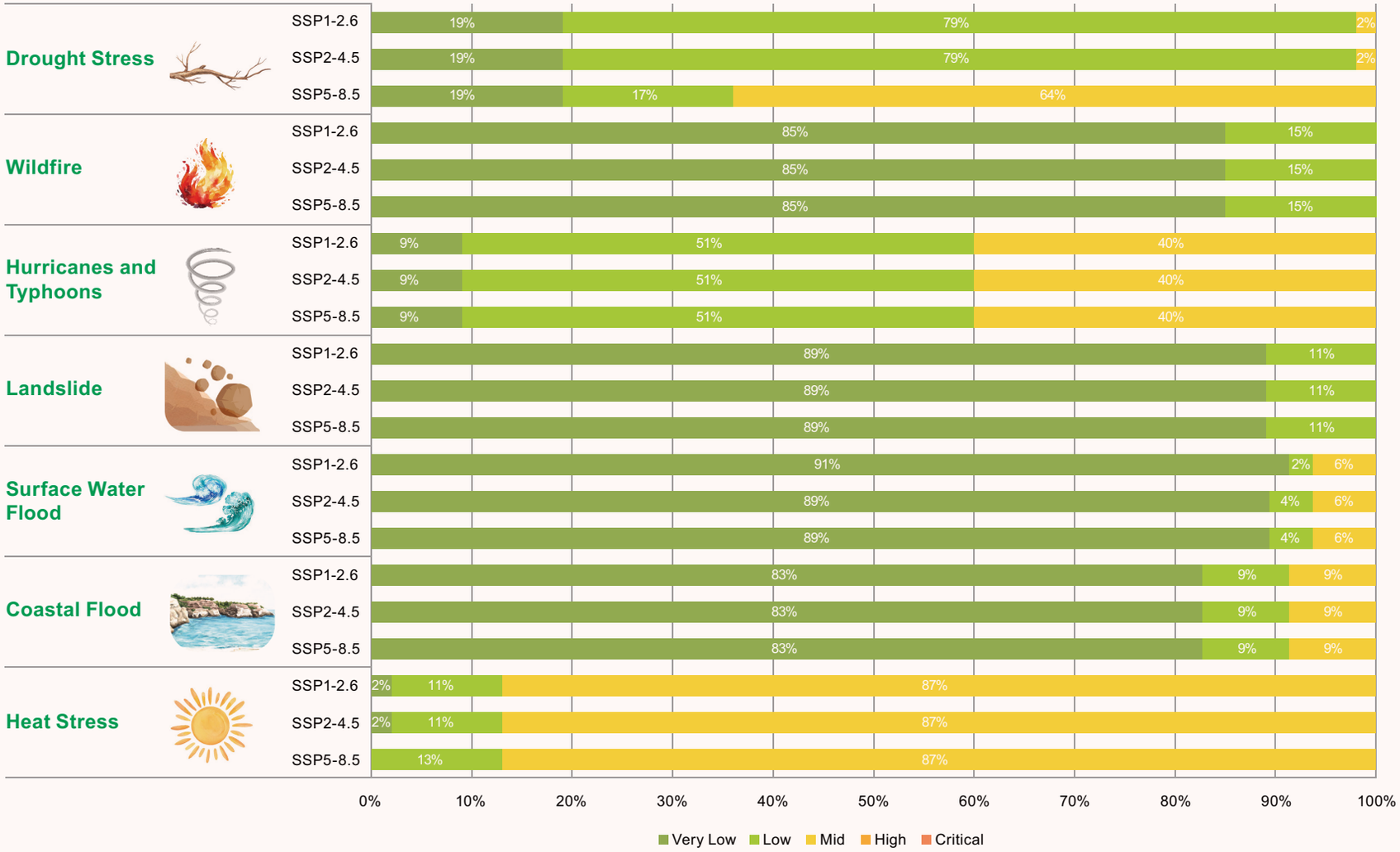
Physical Risks Assessment

To understand the potential impacts of increased physical risks for our portfolio, we have mapped projected changes in climate variables to the locations of our properties. Based on this, we have evaluated the overall risks of each property by incorporating both its exposure and vulnerability to specific climate hazards. The charts below show the proportion of our properties with different levels of risks to the climate hazards under different scenarios.

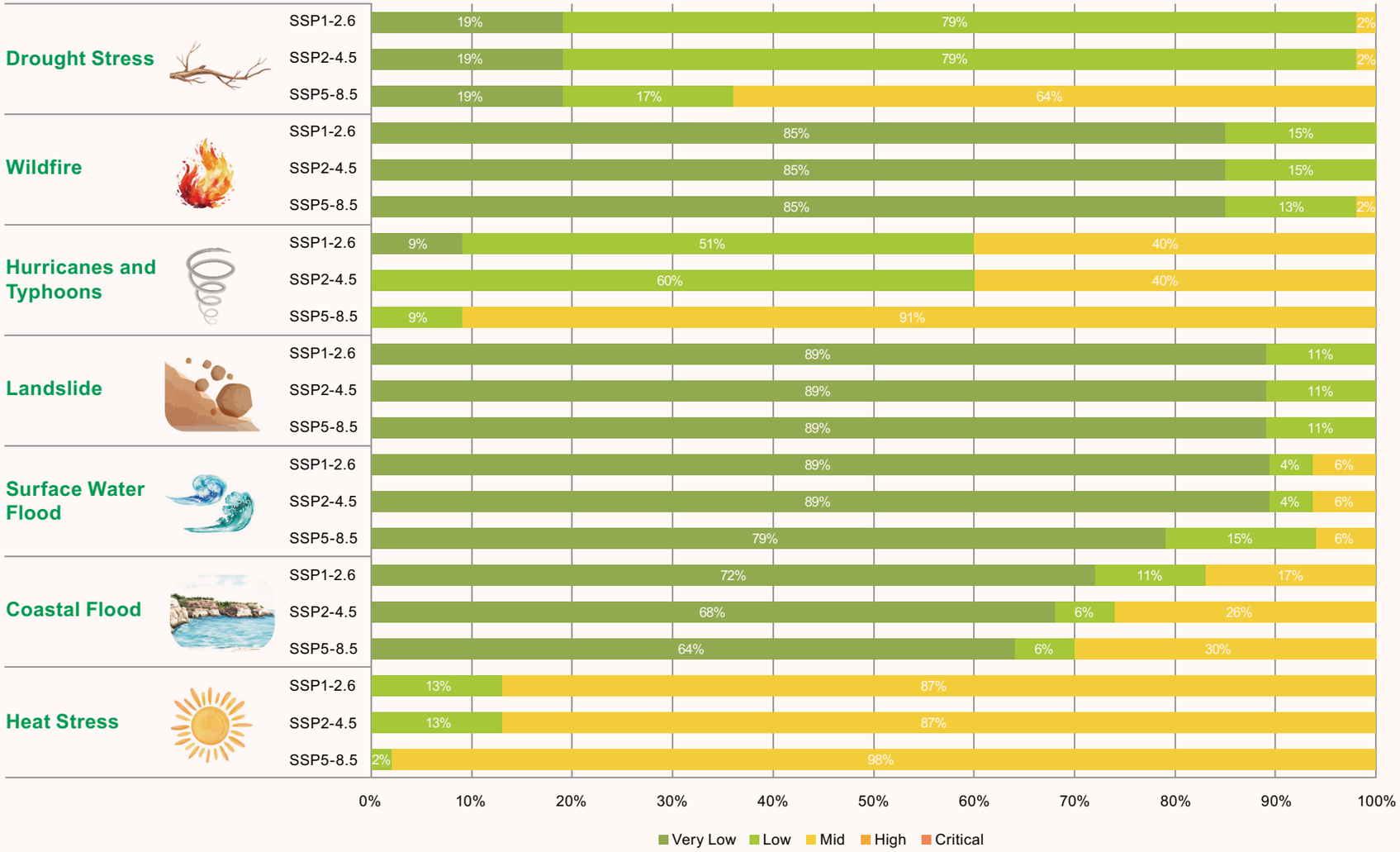
Proportion of Portfolio by Overall Physical Risk Levels in 2030



Proportion of Portfolio by Overall Physical Risk Levels in 2050



Proportion of Portfolio by Overall Physical Risk Levels in 2100



Financial Impact Assessment of Physical Risks

Additionally, we have assessed the associated financial impacts to evaluate how these risks and opportunities could influence our business operations, strategies, and overall financial performance. We conducted a comprehensive Value at Risk ("VaR") assessment to quantify potential financial impacts associated with identified physical climate hazards, providing a quantitative measure of the potential financial exposure of our assets to climate-related risks under different scenarios and timeframes. The VaR assessment results are minimal and immaterial across all climate hazards, scenarios and timeframe, indicating that none are currently considered to be material from a financial perspective.

Transition Risks

Transition risks and opportunities identified by the Group are supplemented by the latest literature and data to provide both qualitative narratives and quantitative modelling for the transition risks scenario analysis. The downscaled projections of the climate system, economy, and energy sector were obtained from Network for Greening Financial Services ("NGFS") and International Institute for Applied Systems Analysis ("IIASA"). The Group has referenced two highly contrasting transition scenarios to enable planning for both best- and worst-case outcomes. Future risks are assessed across three time horizons of short, medium, and long term, same as those used in physical risk assessment.

Climate Projections of Transition Risks Scenario Analysis

Climate Scenario	Description
Current Policies (3°C + of warming)	This scenario assumes that only currently implemented policies are preserved. Emissions grow until 2080 leading to approximately 3°C of warming Slow developments of low carbon technology or market changes are expected
Net Zero 2050 (1.5°C of warming)	This scenario assumes that ambitious climate policies are introduced immediately. Net CO_2 emissions reach zero around 2050, giving at least a 50% chance of limiting global warming to below 1.5°C by the end of the century Rapid developments of low carbon innovation and technology including carbon removal are expected

1 The VaR assessment assumes a business-as-usual case, without incorporating potential mitigation measures or investments. For financial loss estimation, the 95th percentile data was applied to account for the risks of more severe extreme weather events with low probabilities, which could result in much greater losses than typical case, while the 50th percentile data was used for quantitatively scoring the typical risk level of the buildings.

Financial Impact Assessment of Transition Risks

To assess the key impacts and financial implications of the Group's identified transition risks and opportunities, we have mapped relevant financial impact parameters to these risks and opportunities and conducted scenario analysis. The profit and loss implications are quantified and expressed as percentage changes in carbon and energy costs, providing a clearer view of potential financial exposure.

Under the Net Zero 2050 scenario, we anticipate a significant rise in carbon tax beginning in the 2030s and extend from 2100s onwards. Under the Current Policies scenario, the notable increase in carbon tax is expected to start from the 2050s onward. Furthermore, a substantial reduction in electricity costs is expected to commence in the 2030s and extend from 2100s onwards under the Current Policies scenario. Meanwhile under the Net Zero 2050 scenario, the reduction in electricity costs is expected to begin in 2050s and extend beyond the 2100s.

Metrics and Targets on Climate-related Issues

To address climate change risks, we have set ambitious climate-related targets – CCG 3050+ to define our pathway to reduce carbon emissions in line with the Paris Agreement goals to help limit the global temperature increase to 1.5°C above pre-industrial levels. We continue to monitor and disclose key climate-related metrics.

Science-Based Targets

In January 2022, the Group received validation from the Science Based Targets Initiative ("SBTi") that the Group's carbon reduction targets – CCG 3050+ fulfil the conditions for limiting global warming to 1.5°C. SBTi is the globally most recognised organisation for evaluating and approving scientifically based reduction goals pledged by businesses without considering any CO_2-compensating climate projects. The Group is the second real estate developer in Hong Kong to complete this validation.

These approved SBTs are:

- Reduce operational carbon intensity under Scope 1 and 2 by 51.8% by 2030 from a 2020 base year; and
- Reduce Scope 3 carbon intensity from capital goods, downstream leased assets and waste generated in operations by 20%.

Trends of Scope 1 and 2 Emissions

We target to lower our operational carbon intensity under Scope 1 and 2 by 51.8% by 2030 from a 2020 base year. In 2023, the carbon intensity reduced 25.1% from a 2020 base year, further from 23.0% in 2022.