



# China Merchants Land Asset Management

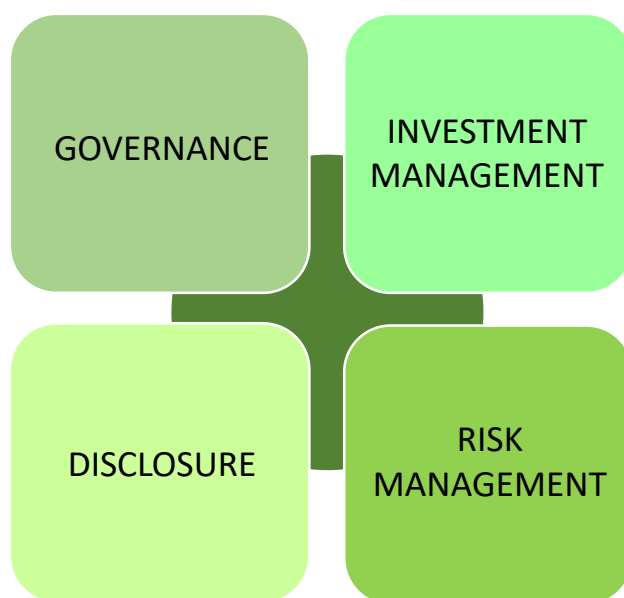
## Climate-Related Risk Policy

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The REIT Manager identifies any relevant and material physical and transition climate-related risks for CMC REIT and actively incorporates ESG issues, including any relevant and material climate-related risks and opportunities, into its overall business strategy and investment decisions. (pg. 4)



## INTRODUCTION

This is the climate-related risk policy (this “**Policy**”) of China Merchants Land Asset Management Co., Limited (the “**REIT Manager**”), the manager of China Merchants Commercial REIT (“**CMC REIT**”).

This Policy is prepared based on the climate-related risks provisions under the Fund Manager Code of Conduct issued by the Hong Kong Securities and Futures Commission (“**SFC**”), and the related circulars and frequently asked questions issued by the SFC (collectively the “**Requirements**”). Unless otherwise stated, this Policy is adopted by the REIT Manager for all assets under management and applied in relevant jurisdictions in which CMC REIT operates.

To manage climate risks effectively, the REIT Manager will devote resources to promote sustainability, embed Environmental, Social and Governance (“**ESG**”) issues in its business development strategy, and implement measures to continuously strengthen its resilience to climate change. The REIT Manager approaches climate-related risks from the perspective of four pillars:

### GOVERNANCE

Establishment of a robust ESG management structure for management on climate-related issues and risks and implementation of various ESG practices in accordance with the established terms of reference.

### INVESTMENT MANAGEMENT

Integration of ESG factors into the management processes and ownership practices and consideration of climate risks and opportunities in the stakeholder engagement and investment analysis processes.

### RISK MANAGEMENT

Formulation of the risk management process in identifying, analysing and managing climate risks and devising plans to mitigate identified risks.

### DISCLOSURE

Timely and transparent information on climate-related disclosures and updates to stakeholders having regard to the Requirements and with reference to recommendations from the Task Force on Climate-Related Financial Disclosures (“**TCFD**”).



## GOVERNANCE

The REIT Manager maintains a robust and effective governance structure to effectively manage and monitor issues, risks and opportunities (including those related to ESG and climate change) and keep track of performance, in order to pursue its sustainability objectives and address stakeholders' concerns and expectations during the decision-making processes. Please see above the governance structure of the REIT Manager on ESG (including climate related matters):

The REIT Manager regularly analyses and monitors various risk areas relevant to real estate investment trusts.

The board of directors of the REIT Manager ("**Board**") has the overall responsibility for overseeing the risk management (including climate-related risks) and internal control systems to ensure that relevant management systems, policies and practices are effectively implemented and maintained. The Board meets at least annually to review the risks to the assets and operations across the portfolio of CMC REIT ("**Portfolio**") and discuss the implementation of risk mitigation measures.

The Board is responsible for setting applicable ESG objectives, reviewing the progress of their implementation, developing action plans as well as improving the effectiveness and appropriateness of related measures. The Board is also responsible for reviewing the ESG reports of CMC REIT to ensure compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Delegated by the Board with the responsibility for implementing risk management activities, the Investment Committee and the Audit Committee have been set up with clear terms of reference to review investment and risk management issues and submit their findings and recommendations to the Board for consideration and endorsement. The Investment Committee will assess and make recommendations on exposure to various risks including climate risk for acquisitions proposed by the REIT Manager. The Audit Committee is tasked to maintain an effective system of internal control and risk management, in respect of both the REIT Manager and CMC REIT. The Audit Committee assists the Board in its monitoring of the overall risk management profile of CMC REIT and setting policies to govern risk assessment and risk management. The Audit Committee meets at least annually to review the climate risks to the assets and operations across the Portfolio and discuss the implementation of risk mitigation measures.

The ESG Working Group, comprising three levels, namely the ESG Executive Group, the ESG Management Team and the ESG Execution Team, is charged with responsibility for overseeing ESG strategies and plans, evaluating ESG risks (including climate-related risks) and implementing ESG practices across day-to-day operations, respectively. The ESG Executive Group is composed of certain staff of the REIT Manager. The ESG Management

Team is composed of certain staff of the operations manager which provides operations management services in respect of the Portfolio ("**Operations Manager**"), whereas the ESG Execution Team is composed of certain staff of the property manager(s) which provide local property management services in respect of the Portfolio ("**Property Manager**"). The ESG Working Group is chaired by a member of the Board. The ESG Working Group assists the Board in reviewing and monitoring the policies and practices to comply with ESG-related legal and regulatory requirements, as well as providing findings and recommendations on ESG development trends and performance for continuous improvement. The ESG Working Group will report material ESG-related issues and risks (if any) to the Board. The ESG Working Group meets at least annually to discuss ESG issues of CMC REIT and reports to the Board at least annually.

The REIT Manager maintains human and technical resources for the proper performance of its duty to manage climate-related risks, including the following:

- (a) organising training sessions related to ESG and climate competence, both for the Board and employees in order to bolster their professional capabilities in the context of the ever-changing market environment; and
- (b) seeking professional advice from external consultants when necessary to better facilitate the assessment of risk, enhance decision-making processes, the compliance of the REIT Manager with various provisions of the FMCC, the Code on Real Estate Investment Trusts issued by the SFC ("REIT Code") and other relevant rules and regulations on climate resilience and disclosure.

## INVESTMENT MANAGEMENT

The REIT Manager's objective is to provide investors with stable distributions, the potential for sustainable long-term distribution growth and enhancement in the value of the Portfolio. As the responsible manager for CMC REIT, the REIT Manager identifies any relevant and material physical and transition climate-related risks for CMC REIT and actively incorporates ESG issues, including any relevant and material climate-related risks and opportunities, into its overall business strategy and investment decisions.

The REIT Manager has integrated its investment objectives, guidelines and processes into its Compliance Manual. The REIT Manager's investment processes govern the overall approaches in identifying potential property investments and restrictions on the investment portfolio, maintaining dialogue with counterparty companies and fairly managing actual and potential conflicts of interest.

The REIT Manager carries out screening and due diligence processes (including ESG and climate-related issues) when commencing any new acquisition or disposal, as well as key business transactions, ensuring property assets comply with all of the applicable laws and regulations, including but not limited to the REIT Code and the SFC's requirements for fund managers on climate-related risks. The investment team of the REIT Manager also engages with vendor companies during the investment analysis process to understand the quality and depth of the potential target asset's management, financial and non-financial performance and social and environmental impact, in order to assess ESG factors and incorporate findings into the overall investment analysis.

The Investment Committee of the REIT Manager is responsible for reviewing investment proposals put forward by the investment team and considering if any

potential climate related risks are relevant and will impact the REIT Manager's future operations or CMC REIT. At least annually, the Investment Committee will review the REIT Manager's investment strategy, particularly in the areas of asset management, acquisitions, capital management and risk management and where appropriate, recommend changes to its policies and procedures for climate-related issues to the Board.

The REIT Manager engages with a wide variety of stakeholders and conducts a materiality assessment each year to seek feedback from them when the REIT Manager makes decisions about how it manages ESG risks and opportunities facing CMC REIT's business. Based on the analysis of the results of the materiality assessment, climate change and response are deemed relevant and material ESG topics to CMC REIT.

The REIT Manager understands the impact of the business operations of CMC REIT on stakeholders such as tenants, employees, investors, government and suppliers. To this end, the REIT Manager actively maintains open and two-way communications with different stakeholders to better understand their concerns and expectations on different ESG issues. The REIT Manager also takes into account the views of the stakeholders of CMC REIT when developing relevant strategies and Policies to continuously improve the ESG performance of CMC REIT.

# RISK MANAGEMENT

## Risk Management Approach

Recognising the risks and threats posed by climate change, the REIT Manager proactively optimises its climate risk management approach and policies for CMC REIT to enhance the climate resilience of its properties.

The REIT Manager identifies, analyses and mitigates ESG-related (including climate change) risks and opportunities through its risk management and internal control framework. The REIT Manager has adopted a risk matrix to prioritise material ESG issues based on the likelihood and severity of the issues. Those risks with a high probability of occurrence and which might have a severe impact on CMC REIT are considered critical risks and mitigation measures and/or action plans for such critical risks are determined to reduce such risks to acceptable levels. The REIT Manager regularly reviews and where appropriate, updates the processes associated with risk management in order to account for environmental and climate-related risks.

## Risk Identification and Assessment

The REIT Manager conducts qualitative climate risk assessments by analysing peer benchmarks and studying the historical climate data and local policies of its main operating areas, to identify physical and transition climate-related risks for each investment strategy and assess the potential implications to its business activities, asset operations and performance of CMC REIT. Records are kept to demonstrate the risk assessment undertaken.

Below is an illustration of such assessment:

## PHYSICAL RISKS

Category	Risk	Financial Implications
<b>Acute</b>	Extreme weather events (e.g. typhoon, flooding, etc.)	<ul style="list-style-type: none"> <li>Reduced revenue and higher costs from increased health and safety risks to personnel, including loss of workforce and absenteeism</li> <li>Reduced revenue from business interruptions, such as supply chain interruptions due to traffic difficulties</li> <li>Increased capital costs from the maintenance and replacement of damaged and/or destroyed assets</li> </ul>
<b>Chronic</b>	<p>Rising temperatures (e.g. heatwaves)</p> <p>Rising sea levels</p>	<ul style="list-style-type: none"> <li>Reduced revenue from lower productivity due to extreme heat, including restrictions on working outdoors</li> <li>Higher operating costs for cooling</li> <li>Increased capital costs from adaption measures, such as additional water proofing of basement areas in buildings</li> <li>Increased insurance premiums and decreased availability of insurance on assets in “high-risk” locations</li> </ul>

# TRANSITION RISKS

Category	Risk	Financial Implications
<b>Policy and legal</b>	Carbon pricing	<ul style="list-style-type: none"> <li>• Increased taxes</li> <li>• Higher operating costs from compliance with new standards and disclosure requirements</li> </ul>
	Enhanced climate-related reporting obligations	<ul style="list-style-type: none"> <li>• Write-offs and early retirement of existing equipment and appliance due to policy changes</li> </ul>
<b>Technology</b>	Technological improvements in assets	<ul style="list-style-type: none"> <li>• Increased capital investments and operating costs for deploying new technologies or practices (e.g., the use of renewable energy)</li> </ul>

### Risk Management Processes (Green Operations)

At the operational asset level, the REIT Manager ensures that all Operation Manager and Property Managers have implemented a common ISO 14001 certified environmental management system across the Portfolio, and this system serves as a tool to monitor identified environmental and climate risks and its ESG performance on a regular basis. Standardised environmental management manuals, operational procedures, and work guidelines for the Operations Manager have been developed to manage the operational issues pertaining to climate change, energy consumption and water efficiency, in order to strengthen climate adaption across the Portfolio and support CMC REIT’s transition to a green and low-carbon operation.

During the property renovation process, the REIT Manager works with Operations Manager, the Property Managers and consultants to design and incorporate green elements into properties to achieve eco-efficiency. Wall and roof greenery are widely used in the properties to reduce indoor air temperature, thereby reducing the cooling requirements and electricity consumption of the buildings. The REIT Manager’s objective is to provide a pleasant environment for the tenants and visitors while reducing the carbon footprint with green designs.

### Risk Management Processes (Contingency Plans)

In response to various extreme weather events, the REIT Manager ensures that contingency plans and response systems for all the properties in the Portfolio are in place. An emergency response team is set up in each property to ensure the effective implementation of various contingency plans. In case of an emergency, the person in charge of the property is responsible for the coordination of emergency rescue operations, while each department provides support in their corresponding fields. This enhances the properties’ ability to handle critical disasters and accidents, minimising the potential damage caused by disasters and protecting the safety of customers, employees and the properties.

The REIT Manager conducts an industry-level risk review on an annual basis, including assessing the relevance and utility of scenarios analysis in evaluating the resilience of its investment strategies to climate-related risks based on the latest global and scientific developments. If the assessment result for the scenario analysis is deemed to be relevant and useful, the REIT Manager will develop a plan to implement scenario analysis within a reasonable timeframe. The REIT Manager continues to optimise its climate risk management and response measures to enhance its resilience of the investment strategies.



## DISCLOSURE

### Portfolio Carbon Footprints

The REIT Manager takes reasonable steps to assess the portfolio carbon footprint of CMC REIT based on the positions as of the financial year end. This assessment encompasses both Scope 1 (direct emissions) and Scope 2 (indirect emissions from purchased electricity) greenhouse gas emissions associated with the Portfolio, to the extent that the relevant data is available or can be reasonably estimated.

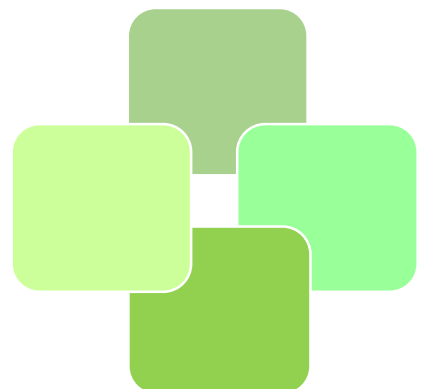
The REIT Manager has developed toolkits for each property within the Portfolio to collect ESG-related data. Each year, the REIT Manager collects energy consumption data for each property to calculate Scope 1 and Scope 2 emissions of the Portfolio. Scope 1 emissions include direct greenhouse gas emissions from purchased electricity. The calculation methodology is derived from sources including Greenhouse Gas Protocol: A Corporate Accounting and Reporting issued by the World Resources Institute, and How to prepare an ESG Report — Appendix 2: Reporting Guidance on Environmental KPIs issued by The Stock Exchange of Hong Kong Limited, and by reference to emission factors provided by power companies.

The portfolio carbon footprint is calculated with reference to the Global GHG Accounting & Reporting Standard of the Partnership for Carbon Accounting Financials (PCAF Standard). The value of the Portfolio and individual properties is defined by third-party certified valuer and is disclosed in the “Valuation Report” section of CMC REIT’s annual reports. The portfolio carbon footprint is determined by dividing the combined Scope 1 and Scope 2 greenhouse gas emissions by the total value of the Portfolio.

The REIT Manager continues to provide timely and transparent climate-related risk disclosures for stakeholders via its official website and other publications. When making disclosures, the REIT Manager observes the following:

- (a) the information disclosed should be proportionate to the degree climate-related risks are considered in the investment and risk management processes;
- (b) adequate disclosures of information should be made in writing and communicated to unitholders of CMC REIT through electronic or other means; and
- (c) the disclosures should be reviewed on at least an annual basis and disclosures should be updated where considered appropriate and the investors should be informed of any material changes as soon as practicable.

The REIT Manager takes into consideration the disclosure related requirements under the FMCC and other Requirements in preparing the disclosures. In so far as the portfolio carbon footprints disclosures are concerned, such disclosure is made within four to six months after the fiscal year end on 31 December and in any case not later than the usual due date of CMC REIT’s annual reports.





**招商局** 置地資管有限公司

China Merchants Land Asset Management Co., Limited

Room 2603-2606, 26/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong