



**招商局** 置地资管有限公司  
China Merchants Land Asset Management Co., Limited

# China Merchants Land Asset Management

the Manager of  
China Merchants Commercial Real Estate Investment Trust

## Climate-Related Disclosure Report

# 2022

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# Introduction

This is the first climate-related disclosure report (the “**Report**”) of China Merchants Land Asset Management Co., Limited (“**CMLAM**” or “**We**”), the manager of China Merchants Commercial REIT (“**CMC REIT**”). The Report summarises our climate-related management approaches, initiatives and practices in managing the assets of CMC REIT.

The Report is prepared in accordance with the *Consultation Conclusions on the Management and Disclosure of Climate related Risks by Fund Managers* – enhanced standards published by the Hong Kong Securities and Futures Commission (“**SFC**”) and with reference to recommendations from the Task Force on Climate-Related Financial Disclosures (“**TCFD**”). Unless otherwise stated, the policies and practices referred to in the Report are adopted by CMLAM for all assets under management and applied in relevant jurisdictions in which CMC REIT operates. The portfolio carbon footprint of CMC REIT for the fiscal year of 2022 will be separately disclosed within four to six months after the fiscal year has ended on 31<sup>st</sup> December.

We are aware of the risks and threats that climate risk poses to our operations and the world. To manage climate risks effectively, we actively devote resources to promote sustainability, embed Environmental, Social and Governance (“**ESG**”) issues in our business development strategy, and implement measures to continuously strengthen our resilience to climate change. CMLAM approaches climate-related risks from the perspective of three pillars, which are captured within the Report:

## Governance

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

## Investment management

- We have integrated ESG factors into our management processes and ownership practices and considered climate risks and opportunities in the stakeholder engagement and investment analysis processes.

## Risk management

- We have formulated the risk management process as identifying, analysing and managing climate risks and have devised plans to mitigate identified risks.

CMLAM will continue to provide timely and transparent information on climate-related disclosure for stakeholders and review the disclosures on an annually basis.

We welcome your feedback and suggestions on this Report. Please contact us via:

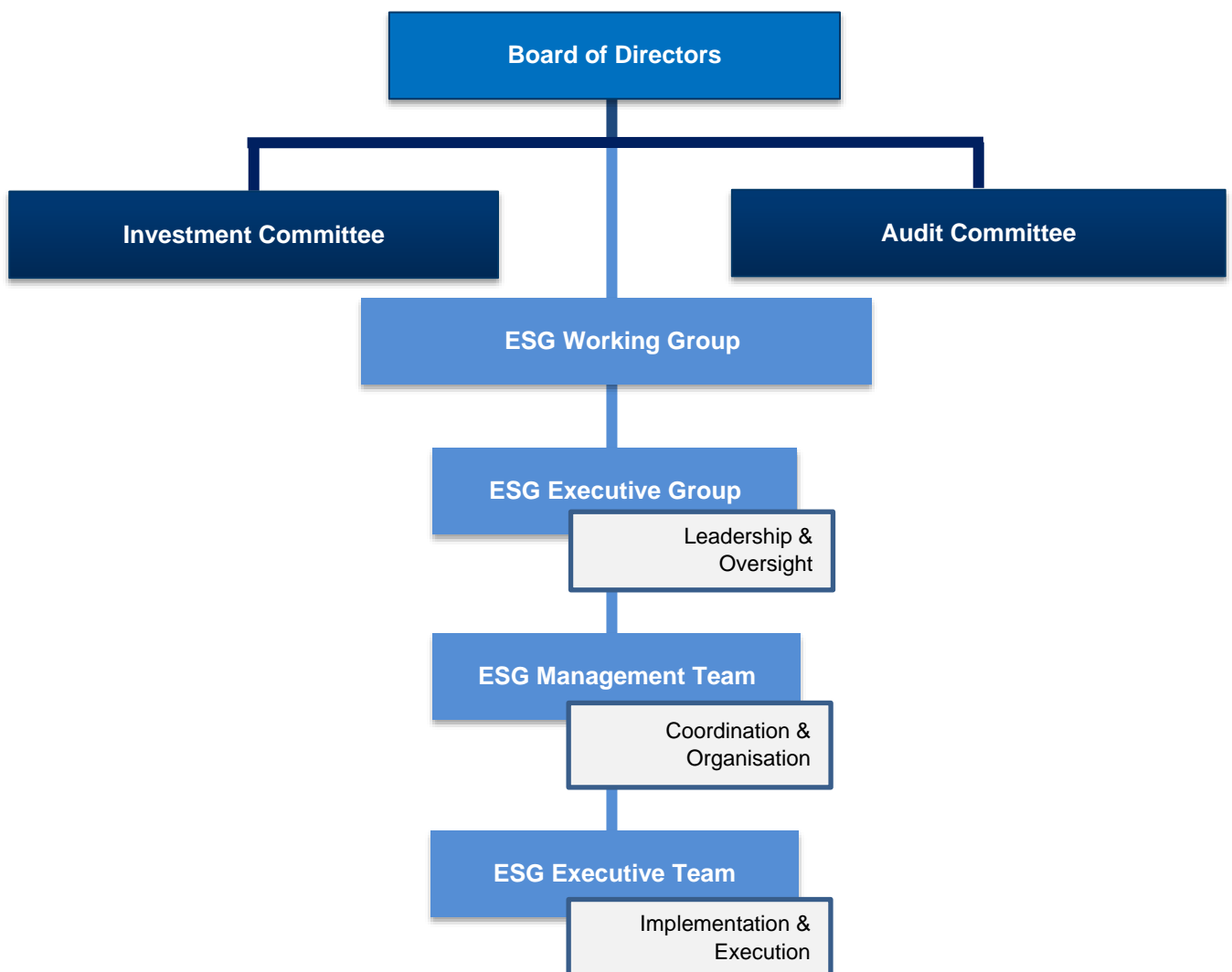
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## Governance

CMLAM recognises the need for a robust and effective governance structure. This helps us 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 our sustainability objectives and address stakeholders' concerns and expectations during the decision-making processes.



The Board of Directors (“**Board**”) of CMLAM has the overall responsibility for overseeing our 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 annually to review the risks to the assets and operations across the portfolio and discuss the implementation of risk mitigations measures.

Delegated by the Board with the responsibility of 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 climate risk exposure for proposed acquisitions and disposals of assets, approving budgets and reviewing actual expenses on all key expenditures and reviewing financial performance, forecasts and annual financial plans of the CMLAM. The Audit Committee is tasked to maintain an effective system of internal control and risk management, in respect of both CMLAM and CMC REIT. It assists the Board in its monitoring our overall risk management profile and setting policies to govern risk assessment and risk management. Various risk areas relevant to real estate investment trusts are analysed regularly and monitored by CMLAM.

Chaired by a member of the Board, the ESG Working Group, comprising of three levels namely the ESG Executive Group, the ESG Management Team and the ESG Execution Team, is charged with the responsibility of overseeing ESG strategies and plans, evaluating ESG risks (including climate-related risks) and implementing ESG practices across day-to-day operations. The ESG Working Group assists the Board in reviewing and monitoring our 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.

We will continue to organise 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. We also seek professional advice from external consultants when necessary to better facilitate the decision-making process, the compliance of the CMLAM with various provisions of the Fund Manager Code of Conduct, REIT Code and other relevant rules and regulations on climate resilience and disclosure.

## Investment Management

We aim to provide investors with stable distributions, the potential for sustainable long-term distribution growth and enhancement in the value of our portfolio of properties. As a responsible manager of CMC REIT, we are fully aware of our role in promoting sustainable development, and actively incorporates ESG issues, including climate-related risks and opportunities, into our overall business strategy and investment decisions.

We have integrated our investment objectives, guidelines and processes into the *Compliance Manual*. Our investment processes govern the overall approaches in identifying the potential

property investments and restrictions on the investment portfolio, maintaining dialogue with counterparty companies and fairly managing the actual and potential conflicts of interest.

We carry out screening and due diligence processes (including ESG and climate-related issues) when commencing new acquisition and 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 SFC's requirements for fund managers on climate-related risks disclosure. Our investment team will also engage 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 is responsible for reviewing investment proposals put forward by the Investment team and considering if any potential climate related risks will impact our future operations. At least annually, the Investment Committee will review our investment strategy, particularly in the areas of asset management, acquisitions, capital management and risk management and where appropriate, recommend changes to our policies and procedures for climate-related issues to the Board.

We engage with a wide variety of stakeholders and conduct a materiality assessment each year to seek feedback from them as we make decisions about how we manage ESG risks and opportunities facing our 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.

## **Risk Management**

### **Risk Management Approach**

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

ESG-related (including climate change) risks and opportunities are identified, analysed and mitigated through our risk management and internal control framework. We have 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. CMLAM will regularly review and where appropriate, update the processes associated with risk management in order to account for environmental and climate-related risks.

## Risk and Opportunities Identification

CMLAM completed a preliminary qualitative climate risk assessment, by analysing peer benchmarks, studying the historical climate data and local policies of its main operating areas. The identified physical and transition climate-related risks with potential implications to our business activities and asset operations are illustrated as below:

### Physical Risks

| Risk 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> | Rising temperatures (e.g. heatwaves)                  | <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> </ul>   |
|                | Rising sea levels                                     | <ul style="list-style-type: none"> <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

| Risk 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> |

## **Our Response to Identified Risks and Opportunities**

### **Green Operations**

At the operational asset level, CMLAM ensures that all operation managers have implemented a common ISO 14001 certified environmental management system across our portfolio, and this system has served as a tool to monitor identified environmental and climate risks and our ESG performance on a regular basis. Standardised environmental management manuals, operational procedures, and work guidelines have been developed to manage the operational issues pertaining to climate change, energy consumption and water efficiency, in order to strengthen climate adaption across our portfolio and support CMC REIT's transition to a green and low-carbon operation.

During the property renovation process, we design and incorporate green elements into properties to achieve eco-efficiency. Wall and roof greenery are widely used in our properties to reduce indoor air temperature, thereby reducing the cooling requirements and electricity consumption of the buildings. We aim to provide a pleasant environment for our tenants and visitors while reducing our carbon footprint with green designs.

### **Contingency plans**

In response to various extreme weather events, CMLAM ensures that contingency plans and response systems for all our properties 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 our properties.

In the upcoming three to five years, CMLAM will conduct an industry-level risk review with selected scenarios based on the latest global and scientific developments. This will provide further insight to management regarding our investments so that they may continue to enhance the assessment process for identified climate-related risks with reference to projections and historical data. We will continue to optimise our climate risk management and response measures to enhance our climate resilience.

## **Portfolio carbon footprints**

The portfolio carbon footprint of CMC REIT for the fiscal year of 2022 will be disclosed within four to six months after the fiscal year has ended on 31 December.