Climate-related Disclosures

The following statement, which references the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board's (ISSB) IFRS S2 Climate-related Disclosures, outlines how we manage climate-related risks and the implications these risks may have on our business.

Our Sustainability and Climate Strategy

The impacts of climate change are observed globally and unusual weather events caused direct impact to our operations. In 2023, just one week after Hong Kong was hit with a tropical cyclone No. 10, the city observed unusual rainfall and flash floods, recording the highest hourly rainfall rate in 24 hours since 1884 causing widespread damage to the city's infrastructure and services. Similarly, Beijing experienced the highest level warning for heavy rainfall warranting 30,000 residents to evacuate from their homes. In Canada, widespread wildfire caused deterioration in air quality in New York and Chicago, with air quality reaching hazardous levels for humans. Given the rise of frequency and intensity of these climate events, we recognise the needs to manage climate-related risks and opportunities proactively. Our group sustainability strategy *Sustainable Luxury Vision 2030 (Vision 2030)* serves as the blueprint of the company to navigate the future volatile world in the event of climate change crisis.

To help facilitate our response to climate change, we have set the following group-wide Greenhouse gas (GHG) reduction targets in *Vision 2030*:

- Reduce our key environmental impact from baseline year of 2010 by:
  - 55% for carbon and water intensity
  - 35% for absolute carbon emissions

Besides setting a target on GHG emissions, we also recognise the needs to accelerate our climate actions and related sustainability efforts within our operations and across our value chain:

- Align new developments and major renovations with international sustainable building standards and ensure building preparedness for future climate events
- Embed climate adaptation measures for existing operations and future investments
- Increase the use of renewable and regenerative energy and water sources
- Responsibly source key products (including tea, coffee, chocolate, cage-free eggs, paper and cleaning products) and services by embedding environmental considerations

More details of our *Vision 2030* strategy, targets and performance can be found in the CRS Report.

To ensure we are well-positioned to weather climate impact, we proactively monitor and deepen our understanding of the inter-related and complex nature of climate risks we are facing. Starting in 2018, we embarked on our journey to understand the potential impact of climate change on our business based on desktop research. In 2022, we commenced work with consultants to understand the physical and transitional climate-risks for the group within the next decade. In the coming year, we are conducting more in-depth climate risk assessment of our assets, which will enable us to estimate the potential economic impact and develop actionable mitigation plan, based on the projected likelihood and severity of such climate hazards in each location. By adding environmental and social risks as a principal risk for our company, we will further integrate climate-risks into our overall risk management strategy.

Governance on Climate Risks

We regard the integration of sustainability and climate actions as a sensible and necessary strategy that benefits the group in both the short and long term. Through the initiative of our Chief Executive Officer (CEO), Mr Clement Kwok, Group Corporate Responsibility Committee (GCRC) was set up in 2007, with the oversight and support of our Chairman, The Hon. Sir Michael Kadoorie and our Board.

Previously led by the CEO, GCRC is now co-chaired by the Chief Corporate and Governance Officer, who also chairs the Group Risks Committee (GRC). This serves as a reflection of the rising importance to integrate sustainability in all aspects of our business and to proactively manage sustainability-related risks. The GCRC is responsible to manage the implementation of our sustainability strategy, and with climate change crisis emerging as top global risk for the past few years, there has been increasing focus and discussion on proactively monitoring climate-related risks, developing mitigation actions and identifying transition opportunities.

The Head of CRS updates the GRC on emerging environmental and social (E&S) risks at least once a year, this is to ensure climate risks are being considered and integrated into the company's broader risk management approach. Given the importance of such risk, the Board has delegated additional responsibility to the Audit Committee to review the effectiveness of managing E&S risks.

AR **Read more on GRC's work on pages 186 and 189 in the Annual Report.**

The Board reviews the group's sustainability strategy and received updates on climate-related issues from the Head of CRS at least once a year. The Board also receives training through the Director's Training and Development programme[1], we seek to enhance our training to include more content on climate and sustainability-related topics, preparing our Directors with the knowledge and competencies to oversee strategies relating to climate risks.

Assessing Our Climate Risks

Our climate risks assessment references physical climate hazards and socioeconomic data from sources such as the Intergovernmental Panel on Climate Change (IPCC) and National Oceanic and Atmospheric Administration (NOAA), and the vulnerability of each asset type to deliver decision-relevant insights. The assessment is based on four Representative Concentration Pathways (RCP 2.6, 4.5, 6 & 8.5) in alignment with climate scenarios published in the latest IPCC Report (AR6).

To help understand the knock-off effect of the climate risks our business face, we regularly refer to research conducted by global risk experts such as the World Economic Forum's (WEF) Global Risks Report, as well as from the United Nations Climate Change Conference (COP28), and also sit in several topic-specific industry consortiums and working groups to stay abreast with emerging climate induced socio-economic risks.

We recognise that climate change poses different types of risks to our business across different time horizons. Physical risks include acute and chronic impacts resulting in the changes in environmental conditions associated with climate change, while transition risks are impacts resulting from the global transition to a low-carbon economy.

Physical Risks

On physical risks, we focused our assessment first on acute physical risks which are extreme weather events, as those require our urgent attention. We have identified the following risks with potential to impact our business:

In the coming year, we plan to conduct more comprehensive climate risk assessments, which will cover a longer-term time horizon and subsequently covering chronic physical risks which typically have longer-term impacts. We also plan to conduct assessments on the asset-level, which will enable us to understand the change of impact over short to long term, including intensity and likelihood of these climate events.

[1] See page 176 in the Annual Report 2023 for records on director's attendance to Training and Development programme

Acute physical risks	Potential Impacts
• Temperature extremes • Coastal and fluvial flooding • Wildfire • Drought • Tropical cyclones • Water stress	Disruption of operations, supply chain disruption for our products and services, physical damage to our assets, increased utility costs and insurance premium, reduced availability of critical resources

Mitigation Measures

We will continue to facilitate our response to the identified group climate-risks through *Vision 2030*. We have established asset-level mitigation measures in place for extreme climate events such as (a) maintaining comprehensive insurance coverage for properties and businesses, (b) enhancing the resilience of the physical structure through better design, upgrade and regular maintenance, and (c) establishing site and company level crisis management teams with business continuity plans to facilitate emergency responses. We also (d) install physical protections against natural disaster, extreme weather events, and chronic changes in climate (e) conduct regular evacuation drills and safety training to prepare our employees for such events, (f) implement water-saving initiatives particularly in assets located in water-stressed regions.

With the recent addition of environmental and social risks as a principal risk to the company, we will integrate climate considerations in the group's semi-annual risk evaluation process to ensure sufficient measures are in place to protect us against future climate events and changes. This process will help facilitate co-ordinated and proactive climate mitigation and adaption efforts across the group.

Transition Risks

Transitioning to a lower-carbon global economy requires co-ordinated and transformative policy, legal, technology and market changes. In recent years, we have seen the nature and speed of such changes pose varying levels of risk to our organisation. We have identified the following transition risks with potential to impact our business:

Climate-related Transition risks	Potential Impacts
Reputational risk	Stakeholder perceptions of our organisation may change based on their perception of our contributions or lack of contributions to climate change. This may result in decreased employee attraction and retention, and decreased guests' demand for our goods/services.
Market supply and demand	Climate change is changing ecosystems core to our product sources for example tea, coffee, chocolate, and seafood, and may limit the availability and supply of such products, as well as rising costs of commodities in the future. We have also seen general public and travellers shifting away from products and services known to cause negative impacts to our environment (such as single use plastic and sharks fin), with an increasing preference on more sustainable, low-carbon alternatives. Failing to transition may decrease demand for our luxury offerings, and hence impacting our business performance in the long term.
Litigation and regulation compliance	We have seen an increase in climate-related litigations globally. Failure to mitigate, adapt and disclose in reference to regulations may impose fines and penalties.
Carbon pricing	We have seen increasing policies and regulations which impose carbon pricing through mechanisms such as carbon taxes or emissions trading, which may increase future operating costs. Markets which we operate in including China, Japan, United Kingdom, Vietnam and California (USA) have already established either mandatory or voluntary carbon pricing mechanisms.

Low Carbon Transition and Future Opportunities

Since the initiation of our sustainability strategy a decade ago, we continue to understand and implement mitigation efforts to manage our evolving climate risks. Early adoption of such measures have provided opportunities for us along our journey.

Through *Vision 2030*, we have implemented numerous energy saving initiatives that achieved 20% energy intensity and 41% carbon intensity reduction from our baseline year of 2010. Together with the increased use of renewable energy, we continue to grow our financial resilience to a more volatile energy market such as surging utility costs and fuel prices in recent years. The early adoption of environmental best practices has also helped ease our transition by allowing sufficient time to explore best available opportunities in the market, update internal protocols as well as training of our employees to respond to emerging regulations such as carbon reporting and disclosures, and maintaining building efficiency in the markets which we operate.

Our new developments are aligned to BREEAM to ensure our buildings are constructed with a lower carbon footprint, built with consideration of acute climate hazards and chronic climate changes in the future, and increase the reputation of our hotel as a sustainable offering in anticipation for future industry demands. We joined the EarthCheck Certification programme more than ten years ago, to ensure our hotels continue to exceed industry expectations. The growing market of more sustainably-conscious travelling in recent years has led to an industry wide effort to promote sustainable options for travellers by aligning to Global Sustainable Travel Council (GSTC) criteria and World Travel and Tourism Council (WTTC) *Sustainability Basics* requirements.

Starting in 2021, we further integrated sustainability into our overall business and financing strategy by obtaining green financing mechanisms to generate working capital on sustainability-related capital expenditure and initiatives. As at 31 December 2023, we have signed a total of HK$13.1 billion sustainability-linked and green loans. More details on projects funded by our sustainability-linked and green loans can be found in our Green Finance Report.

Read our Green Finance Report

Climate change is also expected to place increasing pressure on our supply chains and it is important for us to understand the impacts it will have particularly for our key products most vulnerable to environmental changes such as tea, coffee, chocolate, seafood, and cotton products. As part of our *Vision 2030* strategy, we are focused on working with our high-risk suppliers to improve traceability and to increase local sourcing of perishable goods, nearly 60% across the group. We seek to continue improving on our sourcing practices and improve resilience in our supply chain as part of Scope 3 emission assessment in the coming year.

We are currently reviewing our carbon reduction targets to ensure more alignment to the methodology published by Science-Based Targets Initiatives (SBTI) for our Scope 1, 2 and 3 GHG emissions. We also reference industry benchmark and best practices, to ensure our goals are closely aligned with rigorous climate science. We have also commenced work to conduct detailed energy audits on our assets to identify further energy and cost saving opportunities, as well as identifying opportunities for renewable energy adoption in the markets which we operate, based on availability and cost. This work will be key in mapping out a roadmap which will entail shorter and longer-term actions to decarbonise our operations in alignment with a net zero goal. This roadmap will also be key for us to plan ahead for resource and capital expenditure allocation to facilitate the transition to reach our goals.

As we work towards conducting a more holistic climate risk assessment in the coming year, we also plan to further integrate and formalise the assessment results into our semi-annual corporate risk assessment exercise.