

Climate-related Financial Disclosures

The impacts of climate change are observed globally. With the lack of coordinated action at an international level from different sectors of society, we are conscious of the increasing impacts and risks posed from climate change, not only for our business, but for society at large. We believe that urgent systemic action is required with coordination and collaboration from all sectors to ensure a sustainable future for all. We continue to reference recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to outline how we are managing the risks related to climate change.



GOVERNANCE

We regard the integration of sustainability 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, we developed our approach to sustainability, with the oversight and support of our Chairman, The Hon. Sir Michael Kadoorie and our Board.

The Board oversees the management of climate change issues and other sustainability topics through regular engagement and updates from The Group Corporate Responsibility Committee (GCRC). While we do not have a separate sustainability committee at the board level, throughout the year, the Board, its committees and interested Board members receive updates from the Head of Corporate Responsibility and Sustainability (CRS) as matters arise. The Board considers sustainability to be of substantial importance warranting Board review of the group's sustainability approach, strategy and performance at least once a year.

GCRC, chaired by the CEO, has been given responsibility by the Group Management Board (GMB) to manage all aspects of the implementation of our sustainability approach. GMB, also headed by the CEO and comprised of other senior management, is the principal decision-making body responsible for management and day-to-day business of the group. To enable the integration and cross-functional implementation of sustainability actions into the business, the GCRC is comprised of Group Champions, who are the functional heads representing different aspects of the business including finance, human resources, operations, legal, corporate affairs, sales & marketing, and projects. The GCRC is supported by the CRS Department, spearheaded by the Head of CRS, who reports directly to the CEO, to coordinate and formalise sustainability efforts across the Group.

The Head of CRS regularly reports to the Board and GMB and updates the Group Risk Committee (GRC) on environmental and social risks related to the business. The Head of CRS also coordinates CRS-related risk mitigation actions across the group. Depending on the severity of these risks, these can be escalated to the Audit Committee and the Board for reference or action.



STRATEGY

Climate change is a pervasive issue that affects all parts of our business. We have integrated climate mitigation and adaptation actions throughout our newly updated group sustainability strategy *Sustainable Luxury Vision 2030 (Vision 2030)*. Our new strategy leverages the strengths of our business, focusing on issues requiring significant and urgent attention, scaling positive benefits from our offering, while effectively reducing our negative impacts. We seek to address key challenges in our business and in society through *Vision 2030* by focusing on our three stakeholder pillars of (i) enhancing our guest experience, (ii) empowering our people and (iii) enriching our communities, underpinned by our 10 key commitments.



More details on Sustainable Luxury Vision 2030

To enable our implementation of climate-related actions in *Vision 2030*, we closely monitor our performance and progress on carbon emissions, water efficiency and actions related to the mitigation of climate change such as adopting sustainable designs, mapping out climate risks at the property level and engaging stakeholders such as government, industry peers, think-tanks and more. Currently, each of our operations also have emergency response plans for extreme weather events such as floods, drought, wildfires, extreme heat, hurricanes and typhoons.

At the group-level and as part of our *Vision 2030* strategy, we are developing science-based targets for our Scope 1 and 2 GHG emissions to ensure our goals are closely aligned with rigorous climate science, which will allow us to set out a course of long-term actions to decarbonise our operations. In parallel, we are also referencing methodologies and guidance documents published by tourism and hospitality-focused industry groups to ensure our target-setting is in line with industry best practices.

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 sourcing practices to improve resiliency in our supply chain.

One key principle of *Vision 2030* is to collaborate with other like-minded companies to help find solutions for our world's shared challenges, including in areas of climate change. For example in 2019, we joined the We Mean Business Coalition, a global coalition of the world's top sustainability organisations working towards a zero-carbon economy by advocating for cross-sectoral and collaborative climate change solutions, improved climate disclosures, and mobilising the business voice in climate policies. More recently in 2021, we joined the Climate Action Focus Group, organised by World Travel and Tourism Council (WTTC) to help develop decarbonisation action plans for the tourism and hotel industry. We sat on the Advisory Group and worked closely with other industry peers and Greenview, WTTC, Sustainable Hospitality Alliance, Pacific Asia Travel Association, and Tourism Declare to review and provide practical, industry feedback to the *Net Zero Methodology for Hospitality*. This is just one example where our involvement in industry-wide initiatives yielded meaningful discussions bringing closer alignment of actions across our sector and raising the bar towards achieving a common goal.



RISK MANAGEMENT

Some of the risks related to climate change are already included in our Annual Report's Group Risk Committee Report and our Corporate Responsibility and Sustainability Report. Our business faces both physical and transitional risks resulting from climate change. We have identified the following as key physical risks to our business:

- Increased severity and frequency of extreme weather events and natural disasters which may disrupt our operations, cause supply chain disruption for our products and services, and physical damage to our assets
- Extreme temperature causing increased stress to buildings and increased utility costs

- Sea-level rising and increased likelihood of flood events may cause physical damages to our assets, supply chain disruption, reducing accessibility, and risk of devaluation of our assets
- Drought which may reduce availability and increase prices of certain agricultural products within our supply chain, as well as reduce water availability in water-stressed regions

At the asset level, we mitigate risks related to physical climate events by (a) maintaining comprehensive insurance coverage for properties and businesses, (b) enhancing the resilience of the physical structure through better design, upgrade and regular maintenance, (c) establishing site and company level crisis management teams with business continuity plans to facilitate emergency responses, (d) installation of physical protections in the event of a natural disaster, (e) conducting regular evacuation drills and safety training to prepare our employees, and (f) implementing water-saving initiatives particularly in assets located in water-stressed regions.

Key transitional risks identified for our business arising from policy, regulatory and industry changes for a low-carbon future are:

- National policy and regulations with increasingly ambitious decarbonisation commitments which may tighten building and operational requirements, and carbon pricing or taxing in operating markets
- Increased expectations from stakeholders to accelerate corporate sustainability and responsibility actions, which may require more capital investment and expenditure to meet the evolving expectations
- Increased market demand for more sustainable products and offerings at our hotels

At the group level, we mitigate transition risks by (a) increased allocation of capital investments on efficiency upgrades and sustainability projects, (b) collaborating with our stakeholders to develop sustainable solutions for our key products and services, (c) joining sector and like-minded business initiatives to advocate and advance global efforts for sustainable change.

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In 2019, we completed an initial qualitative assessment of the risks related to the physical and transitional risks of climate change to our business, using scenarios from local regulators and other sources aligned with the four Representative Concentration Pathways (RCP) from the Intergovernmental Panel on Climate Change (IPCC)'s assessment report, the leading report on the most current knowledge on the scientific, technical and socio-economic aspects of climate change. These results were presented and discussed with GMB and GRC such as increased risk of flooding and precipitation that may damage assets and risks related to natural resources, agricultural products and commodities that may impact on our ability to deliver our services. In 2020, a further assessment was conducted to identify these climate risks at country or city level. We are also aware of the multiplier effect and knock-on impact brought by climate change that may exacerbate other socioeconomic issues such as poverty, social inequality, supply chain disruption and more.

In 2021, we focused our discussion on the potential long-term consequences of sea level rise and coastal flood risks to the business at the Board level. We are looking to conduct a more detailed asset-level scenario analysis for us to identify short-term measures to protect our assets from extreme weather events. For long-term planning, we hope to integrate climate risks in the planning and design process of all future development and investment projects. More recently, The Board was also given an update on major outcomes from COP26 and progress update on HSH's climate strategy.



Metrics and Targets

HSH is committed to reducing emissions within our own operations where possible and without impacting our offering to our guests. We publicly report our total energy use and emissions annually in our CRS Report.

To help facilitate our response to climate change, we have set group-wide targets and commitments in *Vision 2030* for greenhouse gas emissions, water efficiency and actions related to the mitigation of climate change such as adopting

sustainable designs, mapping out climate risks at property level and engaging relevant stakeholders. Here are some of our key climate-related commitments:

- Use resources efficiently, prepare our operations for a low carbon economy
 - Reduce our key environmental impact from 2010 by:
 - 55% for carbon and water intensity
 - 35% for absolute carbon emissions
 - Increase the use of renewable and regenerative energy and water sources
 - Embed climate adaptation measures for existing operations and future investments
- Develop and operate sustainable properties
 - Align new developments and major renovations with international sustainable building standards
- Responsible management and diversion of our wastes
 - Achieve a waste diversion rate of 100% for food waste and recyclables by recycling, upcycling and reusing
 - Ensure proper disposal of hazardous waste
 - Increase usage of recyclable material
- Responsibly source key products and services by embedding environmental and social criteria

Details of our *Vision 2030* targets and sustainability performance data can be found in our CRS Report.



2021 Outcomes

In 2021 our total energy spend and water spend was HK\$112 million. While we saw some negative financial impact related to short-term loss of business and increase in insurance costs and expenditure to repair damaged property in recent years, these financial impacts are not considered material to our business at this time. Due to the interconnected nature of climate change, it was challenging to provide a reasonable estimation on the overall financial implications to our businesses as of now. We will focus on developing a comprehensive and robust methodology that allows us to determine the climate-related financial impacts and continue to monitor, manage and report on these impacts as appropriate.