

Fortune REIT – 2021 Climate Disclosure Report

Fortune REIT recognises the impact of its operations on the environment, and understands the potential risks that climate change poses to its business and operations. Fortune REIT strives for continuous improvement on its sustainability performance and aims to combat the impacts of climate change through the proactive identification of climate-related risks and opportunities, and by developing corresponding mitigation measures. In this Climate Disclosure Report, Fortune REIT will describe the potential impact of identified climate-related risks and opportunities, as well as its effort in managing these impacts.

1. Climate Governance

Climate-related risks are considered within Fortune REIT's existing sustainability governance structure, which the Board has the fundamental responsibility. The Board oversees all relevant sustainability issues, covering environmental, social and governance topics, and a Sustainability Committee was established to assist the Board in the effective execution of Fortune REIT's sustainability strategy, managing its sustainability performance and conveying its expectation to stakeholders, including employees and the Property Manager. The Sustainability Committee conducts bi-monthly meetings to review sustainability issues and progress of implemented measures, and considers climate-related risks and the potential impacts it may have on the Manager's operations, which are reported to the Board.

An effective risk management mechanism is essential in order to adapt to and mitigate against rising climate-related risks. Management assists the Board in managing relevant risks, and is responsible for risk identification, evaluation and the management of potential sustainability risks. To allow for a more comprehensive understanding of its operating landscape and preparedness, Fortune REIT conducts a risk assessment across multiple risk categories, identifying potential risks, outcomes/impacts, and mitigation measures for the identified risks. Given the increasing significance of climate change for Fortune REIT's stakeholders, Fortune REIT has also included climate change as an identified risk in its risk register, in order to ensure that these risks will be properly considered and managed.

Fortune REIT conducts a regular review of potential sustainability risks through an analysis of risk indicators from industry practices and global risk trends. Risks identified are then assessed for the severity of their impact on Fortune REIT and the likelihood of its occurrence. The risk management framework of Fortune REIT is reviewed by the Audit Committee, as delegated by the Board, on a semi-annual basis. Risks are then managed through the Manager setting out adaptive and mitigation measures according to the risk analysis results and reviewing the effectiveness of the measures regularly to ensure the risks identified are managed in an appropriate manner.

Fortune REIT's engagement policies are outlined across its Sustainability Strategy, Sustainability Policy Statement, Environmental Policy, Code of Corporate Governance and Stakeholder Engagement Policy. The following section describes how Fortune REIT identifies its material climate-related risks and how it manages said risks in practice.

2. Investment Management

2.1 Climate-related Risk Identification

Within Fortune REIT's investment and capital management process, ESG-related risks (including climate change) are taken into consideration in investment, portfolio management and fund structuring activities. Fortune REIT invests in quality properties with good standing, reputation and track records. In assessing potential acquisitions, the Manager considers sustainability-related matters, including the consideration of environmental factors such as climate risks, renewable energy generation, sustainable procurement, energy efficiency, water efficiency, waste management and others, as well as investment analysis and valuation reports. Fortune REIT also conducts site visits, and regularly assesses the likelihood and potential physical damage that may be caused to its properties under extreme weather events. There are plans for the United Nations Principles of Responsible Investing to be adopted into Fortune REIT's investment and asset management practices in the near future.

To further identify potential impacts that may result due to climate-related risk, Fortune REIT engaged an external consultant to prioritise its climate-related risks and opportunities, including the identification and assessment of transitional and physical risks and opportunities.

Firstly, two consolidated scenarios were developed based on international standards such as IPCC's Representative Concentration Pathways and Shared Socioeconomic Pathways, International Energy Agency and Network for Greening the Financial System in order to identify relevant climate parameters. Based on the identified parameters, a list of potential climate-related risks and opportunities were developed.

2.2 Climate-related Risk Impact Assessment

Risks and/or opportunities that were identified as having potential medium to high impact to the Manager are outlined in the below table, along with the appropriate measures adopted by the Manager to mitigate against and effectively manage the climate-related risks.

Transition Risks/Opportunities

Risk	Potential impact to Fortune REIT	Key Mitigating Measures
Tightened building energy codes and increased adoption of renewable energy	The increased adoption of renewable energy in the market means that the Scope 2 emissions of Fortune REIT may decrease. At the same time, this may present an opportunity for Fortune REIT to participate in renewable energy programmes to further increase the use of renewable energy and decrease its Scope 2 emissions. Governments may tighten building energy codes and guidelines in order to help achieve their carbon neutrality goals. This can then lead to the non-compliance of some existing buildings.	Solar panels have been installed at Fortune City One, Laguna Plaza and Fortune Metropolis. The Manager will continue to explore the feasibility of installing more solar panels at its malls. The Manager seeks to protect the environment and respond to climate change risks by reducing its carbon emissions through enhancing the energy efficiency of its facilities, monitoring its emissions intensity, reducing its consumption of natural resources, and raising environmental awareness amongst its employees.

Increased market demand for green properties	There has been a growing demand for greener and climate friendly products and brands, which may hence present an opportunity to Fortune REIT. By increasing the proportion of green buildings, Fortune REIT may be able to sharpen its competitive edge in meeting the growing consumer preference for green and climate resilient properties.	100% green building certification has been obtained across the entire Fortune REIT portfolio.
Market demand for green finance	The fast growing investor demand for green and low carbon finance and investment provides opportunities for Fortune REIT to unlock different financing streams. Leveraging Fortune REIT's ESG performance may help secure lower long term borrowing costs and expand its pool of ESG centric retail and institutional investors and lenders.	Reinforcing the Manager's on-going commitment to sustainable development and the advancement of its ESG goals, Fortune REIT has secured a 5-year sustainability-linked loan for HK\$1.5 billion from OCBC Bank during 2021. The facility is the second of Fortune REIT's green financing initiatives, with sustainability-linked loan facilities amounting to an aggregate of HK\$2.5 billion. Moreover, Fortune REIT has entered into its first sustainability-linked interest rate swap with DBS Bank, which upon the satisfaction of pre-determined targets concerning community engagement, will enable Fortune REIT to receive a sponsorship from DBS Bank, giving rise to Farm@Fortune.
Changing consumer behaviour	The changing behaviour of tenants and consumers can bring both risk and opportunity to Fortune REIT. If Fortune REIT cannot meet the expectations of its consumers, it may face the risk of losing them. However, if Fortune REIT can realise this trend earlier than its competitors, Fortune REIT may then be able to capture this opportunity by meeting consumers' expectations and demands.	Through the launch of the Fortune Malls App, active asset management and asset enhancement initiatives, Fortune Malls continually revitalises and addresses changing consumer behaviour at its malls, please refer to pages 20- 21 of Fortune REIT's 2021 ESG report for more information.
Increased ambition of national decarbonisation strategies	Although the Hong Kong government has already set its carbon neutrality goals, it may increase its ambition during their decarbonisation journey. If Hong Kong sets more ambitious goals, this may affect climate policies, thereby affecting Fortune REIT's operations.	Please refer to page 33 of Fortune REIT's 2021 ESG report for more information on Fortune REIT's decarbonisation efforts.
Adoption of lower-carbon technology	Technological advancement presents an opportunity for Fortune REIT to improve its energy efficiency, reduce energy cost, reduce carbon emissions and support its transition towards a lower carbon economy. Fortune REIT would be able to gain first mover advantage and gain more	The Sustainability Committee of Fortune REIT continually reviews the efficiency of existing equipment and conducts maintenance as needed, including the replacement of chiller plants to more efficient models,

	<p>in depth knowledge of the operation of these technologies. These technologies may be expensive at first, but with more demand and experience, the cost of these technologies may then decrease. Although it may be cheaper to jump on the bandwagon after industry leaders have already explored these technologies, Fortune REIT may face the risks of being left behind on these technologies. Unsuccessful investment in new technologies may also be a risk to Fortune REIT.</p>	<p>sewage/clear water pumps and LED lighting.</p>
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Physical Risks/Opportunities

Risk	Potential impact to Fortune REIT	Key Mitigating Measures
Heatwaves and increase in average temperatures	<p>The increase in average temperatures can bring both risk and opportunity to Fortune REIT depending on the exact location of a building. It may be a risk when there is a higher energy consumption used for cooling in summer, whereas it may be an opportunity when there is a lower energy consumption used for heating in winter.</p> <p>Heatwaves could cause illnesses such as heatstroke. With prolonged exposure to heatwaves, workers such as security staff and cleaners could suffer from illnesses related to heatwaves, which could lead to an increased rate of injury or occupational illness and may restrict the working hours of Fortune REIT's outdoor labour, ultimately decreasing labour productivity.</p>	<p>As part of Fortune REIT's on-going decarbonisation and climate change efforts, a smart building management system will be installed at Fortune Malls. The cloud-based automated building solution will first cover up to 69% of Fortune REIT's portfolio area, allowing centralised collection and monitoring of building data, serving to optimise energy efficiency.</p>
Extreme weather (Tropical cyclones, intense precipitation, flooding, storm surges, sea level rise)	<p>Fortune Malls may be damaged when extreme weather hits. Subsequent events such as landslips and flooding may cause more damage than strong winds. Climate change may exacerbate the frequency and strength of extreme weather events like tropical cyclones.</p> <p>Flooding would potentially affect Fortune REIT's properties that are located in low lying, coastal or riverside areas, resulting in suspension of business, increase in maintenance costs and insurance premiums etc.</p>	<p>Despite the Property Manager's efforts to adapt to climate change by implementing its extreme weather policy, typhoons have caused minimal disruption to operations and damage to some Fortune Malls in the past, including broken windows, glass doors and water leakage.</p> <p>As further protection against extreme weather events, the Manager has undertaken insurance policies for all its malls covering damage arising from climate-related extreme weather, including tropical cyclones (typhoons) and floods.</p>
Water stress	<p>Climate change may impact on the spatial and temporal distribution in China's water</p>	<p>In addition to energy efficiency and emissions reduction, Fortune REIT is</p>

	resources. While there is a significant amount of water imported from Mainland, water stress issues in the Pearl River Delta may disrupt the water supply to Hong Kong due to the limited water it may be able to source.	also committed to optimizing water usage and minimizing wastewater generation within its operations in line with or better than regulatory guidelines. The initiatives implemented to meet these targets include the installation of water-saving taps and regular inspection to prevent water leakage, the utilization of reclaimed water for landscaping irrigation, rainwater harvesting, as well as the installation of smart irrigation at Farm@Fortune at Fortune City One.
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3. Risk Management

Fortune REIT is committed to building resilience to climate change, a critical risk to all businesses and communities around the world. As a responsible corporate citizen, the Manager is conscious of the environmental impact of its operations and seeks to identify and mitigate significant climate-related issues that may impact its malls. The Manager has incorporated the consideration of climate change into its Sustainability Strategy and has in place a Climate change Adoption Policy, alongside which regular inspections are carried out to ensure Fortune Malls are resilient to extreme weather events.

Furthermore, the Manager also implemented proactive mitigation initiatives through various channels to reduce the release of GHG emissions into the atmosphere. The Manager’s initiatives include long-term reduction targets and monitoring its environmental performance against its targets, adoption of energy efficiency and industry best practices, use of renewable energy, sustainability-anchored procurement and supply chain management processes, and incorporation of climate-related considerations into its risk management framework. These initiatives are embedded within the Manager’s business processes and policies, demonstrating the Manager’s determination to sustainable development and to reduce its carbon footprint.

Lastly, Fortune REIT will continue to regularly assess climate-related risks, with regards to both physical and transition risks, in order to ensure the appropriate processes and management mechanisms are in place to handle any changes to the Manager's risk environment.

4. Carbon Footprint

Recognising the impact of Fortune REIT’s operations on the environment and in line with its sustainability objectives, the Manager has undertaken proactive action to minimise its carbon footprint. Carbon footprint-related metrics are used during this process as a starting point and an effective tool for Fortune REIT to determine the impact of climate change, as well as to facilitate Fortune REIT's stakeholders in easily assessing the Manager's environmental performance against peers. Various initiatives and measures have been put in place regarding climate change, emissions and energy efficiency to further bolster the Manager’s environmental performance pursuant to its Environmental Policy, Climate Change Policy and GHG Emissions Policy. As detailed in these policies, the Manager seeks to protect the environment and respond to climate change risks by reducing its carbon emissions through enhancing the energy efficiency of its facilities, monitoring its emissions intensity, reducing its consumption of natural resources, and raising environmental

awareness amongst its employees. The Manager also continuously evaluates and deploys upgrades, technologies and retrofits in order to further promote the efficient use of natural resources, thus reducing the use of electricity and GHG emissions whilst also driving down operational costs and improving investor returns.

Fortune REIT assesses and monitors its GHG emissions annually, and has engaged an external consultant to conduct a GHG assessment in accordance with the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong, with reference to other international standards such as the ISO 14064 standard and the GHG Protocol. The Manager's performance against the designated emissions metrics over the Reporting Year are as below:

GHG Emissions Target	3% absolute reduction by 2023 (2018 baseline)
Total GHG emissions	20,627.4 tonnes CO ₂ -e
GHG emissions intensity	0.007 CO ₂ -e per sq. ft.
Scope 1 direct GHG emissions	2,169.6 tonnes CO ₂ -e (includes emissions from diesel combustion of generators and refrigerant consumption)
Scope 2 energy indirect GHG emissions	18,099 tonnes CO ₂ -e (includes emissions from electricity consumption of directly managed malls)
Scope 3 other indirect GHG emissions	358.8 tonnes CO ₂ -e (includes electricity consumption for common areas in indirectly managed malls) Note: Fortune REIT has recently completed a Scope 3 screening exercise, and will continue to expand its Scope 3 measurement to material categories in the following years.

Furthermore, Fortune REIT continues to explore the use of emission-free, renewable energy solutions to reduce fossil fuel consumption. Solar panels have been installed at Fortune City One during the Reporting Year, combined with the existing solar panels at Laguna Plaza and Fortune Metropolis, the solar panels are expected to generate 289,635 kWh of clean power annually, reducing CO₂ emissions by 107.16 tonnes.