November 2024

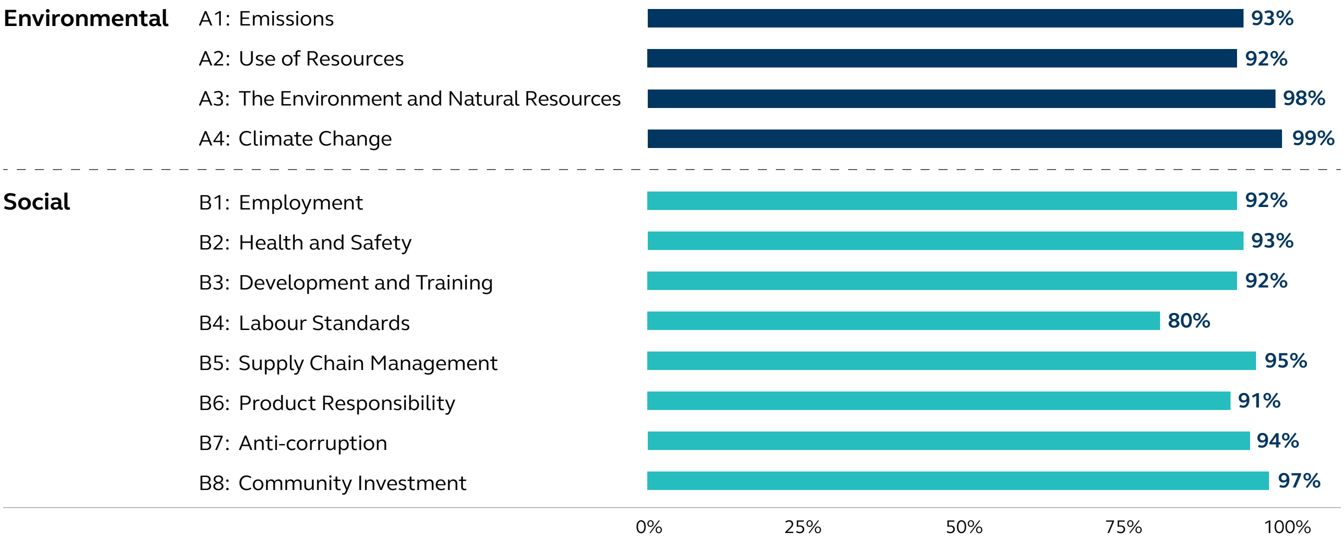
2024 Analysis of ESG Practice Disclosure

The Stock Exchange of Hong Kong Limited (Exchange) has completed its review of listed issuers' latest environmental, social and governance (ESG) reports to assess their compliance with its ESG reporting framework[1].

Overall performance

>91% reporting rate[2] achieved for all Aspects (except for B4: Labour Standards)

Figure 1: Average Reporting Rates of all Aspects



1 The ESG Reporting Code (Appendix C2 to the Listing Rules), which requires reporting of certain mandatory disclosure requirements, and code provisions (CP) in relation to 12 Aspects under the "Environmental" Subject Area and "Social" Subject Area on a "comply or explain" basis.

2 A CP is described as "reported" if it was either "complied" or "explained". The reporting rate of an Aspect means the average reporting rates across all CPs under an Aspect.

Key observations

Improved quality of ESG governance disclosures

- Highlighted the board's role in overseeing ESG matters
- Outlined governance structure, indicating clear responsibilities and reporting line
- Illustrated how ESG considerations were incorporated into strategies and decision-making processes
- Described the board's involvement in ESG matters during the year: review of the status of completion of ESG targets, frequency of board meetings considering ESG matters, interaction between the board and the ESG working group/committee

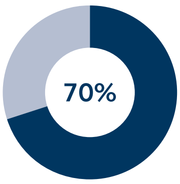
Climate-related disclosures by LargeCap Issuers[3]

Starting from 1 January 2026, it will be mandatory for LargeCap Issuers to report on the Exchange's new climate requirements[4]. To assess their readiness, we evaluated their disclosures in four dimensions:

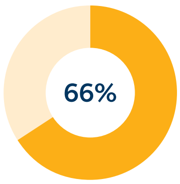
(i) Commitment to report against international ESG reporting frameworks

100% of LargeCap Issuers made reference to international ESG reporting frameworks

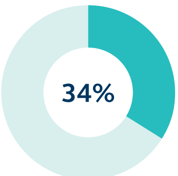
Figure 2: Reference to International ESG Reporting Standards[5]



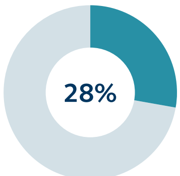
TCFD Recommendations
Recommendations of the Task Force on Climate-related Financial Disclosures issued by the Task Force on Climate-related Financial Disclosures in June 2017



GRI Standards
GRI Sustainability Reporting Standards issued by the Global Reporting Initiative



ISSB Standards
Comprising the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the IFRS S2 Climate-related Disclosures published by the International Sustainability Standards Board in June 2023



Others
Other ESG reporting frameworks, including but not limited to the SASB Standards, the ISO standards, and the Taskforce on Nature-related Financial Disclosures Recommendations

A majority of LargeCap Issuers referred to the TCFD Recommendations and the ISSB Standards, which are the foundations of our new climate requirements[6], indicating they should have developed a general understanding of the forthcoming new climate requirements.

3 Issuers that are Hang Seng Composite LargeCap Index constituents. As at 30 August 2024, there were a total of 118 Hang Seng Composite LargeCap Index constituents. See Hang Seng Composite Size Indexes page for list of constituents.

4 For details of the new climate requirements, please refer to the Consultation Conclusions on Enhancement of Climate-related Disclosure under the Environmental, Social and Governance Framework published by the Exchange in April 2024.

5 As issuers may adopt multiple ESG reporting frameworks, the aggregate adoption rate exceed 100%.

6 The Exchange's new climate requirements are developed based on the ISSB Standards, which are in turn built upon the TCFD framework.

(ii) Use of climate-related scenario analysis

80% of LargeCap Issuers conducted scenario analysis

>70% of these issuers used scenario analysis to assess materiality of climate-related risks identified or resilience of mitigation plans adopted

(iii) Reporting on greenhouse gas (GHG) emissions

100% of LargeCap Issuers reported on Scope 1 and 2 GHG emissions (overall reporting rate of all issuers: 96%)

50% of LargeCap Issuers reported on Scope 3 GHG emissions (overall reporting rate of all issuers: 37.4%)

All the LargeCap Issuers that reported on scope 3 GHG emissions (i.e. 55 LargeCap Issuers) disclosed a breakdown of scope 3 categories with reference to the 15 categories described in the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

Figure 3: Disclosure of Scope 3 categories by LargeCap Issuers[7]

Upstream activities

- 67% — 1. Purchased goods and services
- 44% — 2. Capital goods
- 55% — 3. Fuel- and energy-related
- 47% — 4. Upstream Transportation and distribution
- 62% — 5. Waste generated in operations
- 69% — 6. Business travel
- 47% — 7. Employee commuting
- 18% — 8. Upstream leased assets

Downstream activities

- 16% — 9. Downstream transportation and distribution
- 5% — 10. Processing of sold products
- 24% — 11. Use of sold products
- 20% — 12. End-of-life treatment of sold products
- 18% — 13. Downstream leased assets
- 7% — 14. Franchises
- 13% — 15. Investments

The top three scope 3 categories reported on by LargeCap Issuers are "**6. Business Travel**", "**1. Purchased Goods and Services**" and "**5. Waste Generated in Operations**", all of which are "upstream" activities (i.e., value chain activities up to the point of product production or service provision).

"Downstream" activities (i.e., value chain activities from the distribution of products or services) have much lower reporting rates, probably due to the lack of incentive and/or power to control or monitor customers' use and disposal of products or services.

7 As issuers may report on multiple scope 3 categories, the aggregate reporting rate exceed 100%.

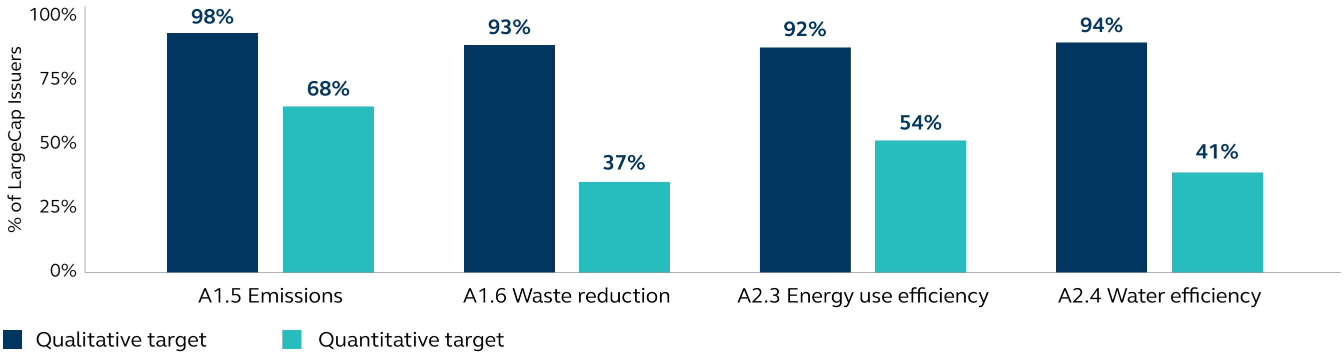
(iv) Setting and disclosing environmental targets

Under the Listing Rules, issuers are required to disclose targets in respect of four environmental KPIs[8] on a "comply or explain" basis. On average:

94% of LargeCap Issuers have set **qualitative** environmental targets

50% of LargeCap Issuers have set **quantitative** environmental targets

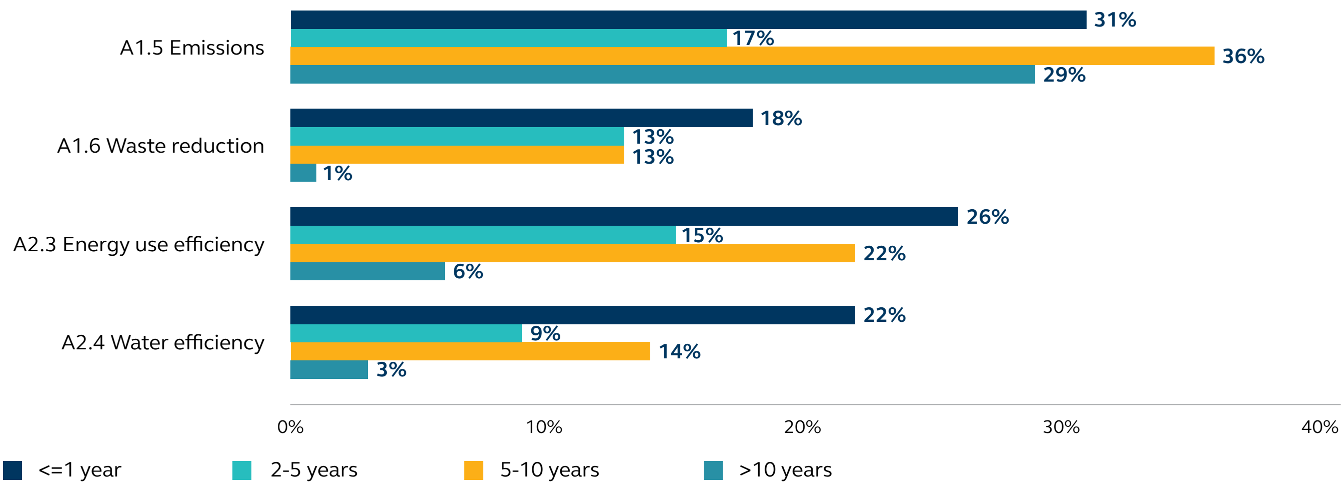
Figure 4: Disclosure of environmental targets by LargeCap Issuers



68% of LargeCap Issuers have set and disclosed quantitative emissions targets

65% of quantitative emissions targets set are long-term targets (5-10 years or over 10 years)

Figure 5: Time horizon of quantitative targets



This result may be prompted by national or regional carbon-neutrality goals, such as those set by China and Hong Kong to achieve carbon neutrality by 2060 and 2050, respectively.

8 Namely, KPIs A1.5 (emissions), A1.6 (waste reduction), A2.3 (energy use efficiency) and A2.4 (water efficiency).

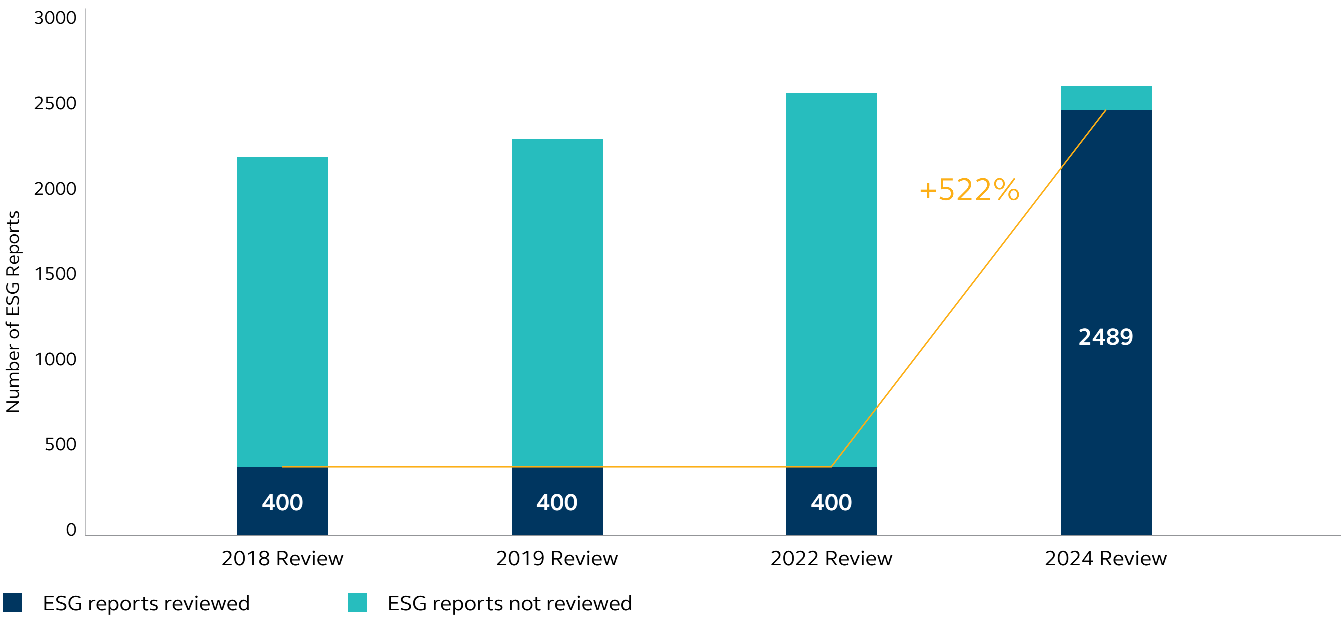
Methodology

In conducting this review, we applied artificial intelligence (AI) technology, supplemented by manual review of LargeCap Issuers' climate-related disclosures. The use of AI technology has greatly expanded the scope of review[9].

100% of the most recent ESG reports published by issuers listed as of 30 June 2024[10] reviewed

+522% in number of reports reviewed compared to manual sampled review in previous years

Figure 6: Scope of review



Qualifications: Results and analysis are subject to: (i) discrepancies that may arise due to the application of AI technology to conduct a comprehensive review as compared to sampling required by manual reviews in previous years, and (ii) the less than 100% accuracy currently achievable from use of AI technology.

9 The Exchange has conducted and published findings of its periodic review of listed issuers' ESG practice disclosure in 2018, 2019 and 2022.

10 Excluding long suspended issuers, secondary listed issuers and newly listed issuers who have not yet published their first year ESG reports.

Recommendations

New climate requirements will come into effect in phases starting from 1 January 2025. Issuers should take prompt action to prepare for the new requirements, namely:

Familiarise with the new requirements: refer to the Implementation Guidance and other useful materials on the ESG Academy

Conduct gap analysis: evaluate existing processes, controls and procedures to identify areas for upgrade or improvement

Consider sufficiency of resources: plan for the allocation of internal resources, and engage additional personnel and/or experts where appropriate

Engage with value chain entities: start as early as possible to involve value chain counterparties, with a view to accelerate the development of the infrastructure necessary for data collection and verification

We will continue to provide further guidance and training as appropriate, based on our observations and review of issuers' compliance.

Hong Kong Exchanges
and Clearing Limited

8/F, Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

hkexgroup.com | hkex.com.hk

info@hkex.com.hk
T +852 2522 1122
F +852 2295 3106