

Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
12 Floor, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

02 April

Dear Sir/Madam,

**Re: Consultation Paper on Environmental, Social and Governance Reporting Guide**

By way of background, Hermes is one of the leading asset managers in the City of London. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients from around the world, including PSP Investment, BT Pension Scheme, National Pension Reserve Fund, La Caisse, British Coal Staff Superannuation Scheme and Mineworker Pension Scheme (only those clients which have expressly given their support to this response are listed here). In all, EOS advises clients with regard to assets worth a total of \$138 billion (as at December 31st 2011).

Hermes takes a close interest in matters of company law and regulation because they set the context for the exercise of our clients' rights as part owners of the companies in which they invest. We seek to safeguard our clients' current rights and also to enhance the transparency and accountability of companies and their directors to their long-term owners.

We welcome the proposed Environmental, Social and Governance Reporting Guide (the 'ESG Guide') for issuers listed in Hong Kong. EOS and our clients firmly believe that ESG factors are important to the long-term health and success of companies in which we are part-owners. We thus encourage companies to adopt ESG guidelines and to enhance reporting in this area. As overseas shareholders, we sometimes meet difficulties in understanding companies' policies and approach to sustainability issues due to a lack of disclosure and quality reporting. Complying with the ESG Guide and reporting on such issues will help the companies understand further the challenges they face and the risks and opportunities they have in respect of sustainability matters. Meanwhile, this also allows responsible investors to understand the measures and actions undertaken by the companies and their progress in addressing them. Therefore, we encourage issuers proactively to report on ESG issues, looking beyond compliance and providing information which is the most material to their business and their shareholders.

The ESG Guide covers a wide range of issues. Below we responded to each question on the consultation paper and provided an explanation or an alternative view where appropriate. We would like to highlight that, as the representative of long-term investors, EOS strongly encourages the HKEx to apply a 'comply or explain' standard to disclosures in relation to the ESG Guide. We understand that although more international companies in Hong Kong have



already adopted certain ESG standards, many Hong Kong issuers are not yet ready to comply fully with these standards. In order to strengthen the implementation of the ESG Guide, we encourage the HKEx to escalate the level to 'comply or explain' in the near future. In addition, we suggest HKEx should provide a clear timeframe for the transition to a 'comply or explain' approval. This will allow companies to prepare for the future change as well as to understand more clearly the expectations of HKEx and their shareholders.

Apart from reporting on the current ESG issues companies face, Hermes EOS also encourages forward-looking disclosure from companies which provides measurable targets and quantitative goals in their ESG reports. In addition, we welcome board directors' involvement in the reporting process, not least because it is vital that there is a clear link between the ESG policy and the company's business strategy. We strongly encourage companies to report on this link, and hope that HKEx can encourage this. Thus, we believe that it is beneficial for the board of directors to receive training on ESG issues in order to gain updates and a better understanding of the challenges and risks to the company's business. As a result, it will facilitate board of directors' oversight of ESG reporting and have a positive influence on the company's behaviour in addressing sustainability issues for a long-term.

Overall, we think the HKEx ESG Guide is very encouraging. As global investors we would like to see some level of consistency as other exchanges move in this direction. This will help us compare across sectors and geographies more efficiently. We encourage HKEx to periodically update the guide in line with changes to international best practice.

We sincerely hope that you find our response on the attached questionnaire helpful and will take them as constructive input to your approach. If you would like to further discuss any specific issues or exchange views, please do not hesitate to contact [REDACTED] line: + [REDACTED] 1; E-Mail: v.z [REDACTED] (k)

Yours sincerely,

[REDACTED]  
[REDACTED]

[REDACTED]

Associate Hermes Equity Ownership Services

Hermes Fund Managers Limited

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed changes discussed in the Consultation Paper downloadable from the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112.pdf>.

Where there is insufficient space provided for your comments, please attach additional pages.

1. Should the ESG Guide be a recommended best practice appended to the Listing Rules?

Yes

No

If your answer is “No”, please give reasons and alternative views.

<p>We welcome the ESG Guide introduced by HKSE. In due course, we would ask for the guidance to be elevated from best practice to a ‘comply to explain’ framework.</p>
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2. Do you agree with the proposed Main Board Listing Rule 13.91 and paragraph 53 of Appendix 16/ GEM Listing Rules 17.103 and 18.84 in Appendix I of the Consultation Paper?

Yes

No

If your answer is “No”, please give reasons and alternative views.

<p>We suggest that the recommended disclosure in the Rules be elevated to ‘comply or explain’ level.</p>
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## Content of the proposed Environmental, Social and Governance Reporting Guide

### Introduction

3. Do you agree with the Introduction section?

The proposed Introduction section states:

1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”).
2. This guide is not comprehensive. We encourage an issuer to identify and disclose additional ESG issues and KPIs that are relevant to its business. It may also refer to existing international ESG reporting guidance for its relevant industry or sector.
3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards.
4. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report, in print or on its website. Where the information is included in a separate report, an issuer is free to report on any period.
5. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a committee that reports to the board.

Yes

No

If your answer is “No”, please give reasons and alternative views.

## General Approach

4. Do you agree with the guidance under the General Approach section?

The proposed General Approach section states:

### *Identify subject areas, aspects and indicators that are relevant*

8. Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer's business. Also, some may be more important to an issuer's business than others. For example, product responsibility, an ESG aspect, may be important to a retailer.
9. The ESG report could prioritise ESG subject areas, aspects and KPIs that are material in the context of its corporate strategy, which could be given prominence in the report.
10. It is unnecessary to report on all subject areas, aspects and KPIs. An issuer could identify and report on relevant ESG subject areas, aspects and KPIs that have material environmental and social impacts. Materiality can be addressed in strategic, operational and financial terms.

### *Engage stakeholders*

11. It is important to engage stakeholders to identify material aspects and KPIs and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of an issuer. They may include shareholders (including independent shareholders), business partners, employees, suppliers, sub-contractors, consumers, regulators and the public.
12. The ESG report could disclose the issuer's stakeholders and the basis for their identification. It may also disclose the activities the issuer has arranged to engage stakeholders, the objectives and how it has responded to stakeholders' views. Stakeholder engagement may be conducted through meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires, web-based forums and written consultations.
13. The ESG report may also disclose a mechanism for stakeholders to provide feedback.

Yes

No

If your answer is "No", please give reasons and alternative views.

Regarding identifying subject areas, aspects and indicators that are relevant (paragraph 8-10), we agree that company could prioritise ESG subject areas depending on its core business. We agree that company should report ESG issues with focus. For example, mining companies should place more emphasis on reporting environmental issues and health & safety issues.

However, we also believe that companies should continue reporting other ESG issues apart from its core ESG relevant area. Because companies should have consistent manner and policy on all the ESG matters not only the most relevant areas.

## Reporting guidance

5. Do you agree with the guidance under the Reporting Guidance section?

The proposed Reporting Guidance section states:

### *Scope of reporting*

14. The ESG report could state which entities in the group and/or which operations have been included for the report. If there is change in the scope, the issuer could explain the difference and reason for change.

### *Approaches to reporting*

15. Once an issuer starts reporting, it could continue to do so regularly. The aspects and KPIs reported could be consistent for each period or there could be an explanation of the changes. An issuer may also explain why some aspects and KPIs are not reported.
16. An ESG report could state the issuer's ESG management approach, strategies, priorities, objectives and explain how they relate to its business. It could discuss the issuer's management, measurement and monitoring system to implement its ESG strategies.
17. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed. For example, a telecommunication company may see an opportunity to promote teleconferencing as an alternative to travel due to climate change concerns. An information and technology company may see the damage to its reputation from a breach in consumer privacy as an ESG risk.

### *Reporting on line items*

18. The Guide does not provide a definition for each KPI. An issuer could explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs. It may use the same definition and calculation method each period for comparison over time. If there is a change to the definition or calculation method, the issuer could explain the difference and reason for the change.
19. Over time, an issuer may present time series of data for comparison over a period already reported on. The time period used may be consistent for every report.
20. An issuer may report line items with objective and representative industry benchmarks.
21. Quantitative information could be presented in a table format.

Yes

No

If your answer is "No", please give reasons and alternative views.

We encourage directors' involvement in ESG reporting process and to demonstrate management's strategic thoughts and understanding on sustainability issues.

Key ESG Subject Areas

6. Do you agree with the proposed ESG areas, namely: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement?

Yes

No

If your answer is "No", please give reasons and alternative views.

Aspects for each ESG Area

7. Do you agree with the following proposed aspects?

Areas and aspects	
<b>A. Workplace quality</b>	
Aspect A1	Working Conditions
Aspect A2	Health and safety
Aspect A3	Development and training
Aspect A4	Labour standards
<b>B. Environmental protection</b>	
Aspect B1	Emissions
Aspect B2	Use of resources
Aspect B3	The environment and natural resources
<b>C. Operating practices</b>	
Aspect C1	Supply chain management
Aspect C2	Product responsibility
Aspect C3	Anti-corruption
<b>D. Community involvement</b>	
Aspect D1	Community investment

Yes

No

If your answer is “No”, please give reasons and alternative views.

**A. Workplace quality**

Aspect A1    Working conditions

8. Do you agree with the following general disclosure for Aspect A1: Working conditions?

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare.

Yes

No

If your answer is “No”, please give reasons and alternative views.

9. Do you agree to include KPI A1.1: “Total workforce by employment type, age group and geographical region”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

10. Do you agree to include KPI A1.2: “Employee turnover rate by age group and geographical region”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

11. Do you have any additional KPIs for Aspect A1?

Yes

No

Please give reasons for your proposals.

We suggest the disclosure should also include:

- Usual working hours and overtime ratio
- Pay for overtime work
- Compensation for occupational hazards and work injury

Aspect A2    Health and safety

12. Do you agree with the following general disclosure for Aspect A2: Health and safety?

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on providing a safe working environment and protecting employees from occupational hazards.

Yes

No

If your answer is “No”, please give reasons and alternative views.

13. Do you agree to include KPI A2.1: “Fatality number and rate”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

We think company should also disclose:

- Number of accidents.
- Fatality number including employees and contractors.
- The number of accidents and fatality number in the past three to five years.

14. Do you agree to include KPI A2.2: “Lost days due to work injury”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

15. Do you agree to include KPI A2.3: “Description of occupational health and safety measures adopted, how they are implemented and monitored”?

Yes

No

If you answer is “No”, please give reasons and alternate views.

16. Do you have any additional KPIs for Aspect A2?

Yes

No

Please give reasons for your proposals.

Description of measures undertaken to improve health & safety, if the company:

- Provide protection facilities.
- Regularly maintain/renew equipments and machines to mitigate risks.
- Regularly carry out on-site training, emergency training and accident drill to all the workers and management.

Aspect A3    Development and training

17. Do you agree with the following general disclosure for Aspect A3: Development and training?

Policies on improving employees' knowledge and skills for discharging duties at work.

Training refers to vocational training. It may include internal and external courses paid by the employer.

Yes

No

If your answer is "No", please give reasons and alternative views.

18. Do you agree to include KPI A3.1: "Description of training activities provided and if relevant, the percentage of employees trained by employee category (e.g. senior management, middle management, etc.)"?

Yes

No

If your answer is "No", please give reasons and alternative views.

19. Do you agree to include KPI A3.2: "The average training hours completed per employee by employee category"?

Yes

No

If your answer is "No", please give reasons and alternative views.

20. Do you have any additional KPIs for Aspect A3?

Yes

No

Please give reasons for your proposals.

Board of directors should receive training on ESG issues in order to gain updates and better understanding of challenges and risks for the companies' business. It will facilitate their oversight role on ESG reporting. Company should also disclose the topics of training the directors have received.

Aspect A4    Labour standards

21. Do you agree with the following general disclosure for Aspect A4: Labour standards?

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on preventing child or forced labour.

Yes

No

If your answer is "No", please give reasons and alternative views.

To prevent child or forced labour not only in company itself but also in its major or significant suppliers

22. Do you agree to include KPI A4.1: "Description of measures to review employment practices to avoid child and forced labour"?

Yes

No

If your answer is "No", please give reasons and alternative views.

Including its major or significant suppliers

23. Do you agree to include KPI A4.2: “Description of steps taken to eliminate such practices when discovered”?

Yes

No

If you answer is “No”, please give reasons and alternate views.

Including its major or significant suppliers

24. Do you have any additional KPIs for Aspect A4?

Yes

No

Please give reasons for your proposals.

We think it is also important to include company’s measures to review overtime of its employees and the workers in its major or significant suppliers.

**B. Environmental protection**

Aspect B1    Emissions

25. Do you agree with the following general disclosure for Aspect B1: Emissions?

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.

Air emissions include NO<sub>x</sub>, SO<sub>x</sub>, and other pollutants regulated under national laws and regulations.

Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Hazardous wastes are those defined by national regulations.

Yes

No

If your answer is “No”, please give reasons and alternative views.

26. Do you agree to include KPI B1.1: “The types of emissions and respective emissions data”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

27. Do you agree to include KPI B1.2: “Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?”

Yes

No

If your answer is “No”, please give reasons and alternative views.

28. Do you agree to include KPI B1.3: “Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?”

Yes

No

If your answer is “No”, please give reasons and alternative views.

29. Do you agree to include KPI B1.4: “Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?”

Yes

No

If your answer is “No”, please give reasons and alternative views.

30. Do you agree to include KPI B1.5: “Description of measures to mitigate emissions and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

31. Do you agree to include KPI B1.6: “Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

32. Do you have any additional KPIs for Aspect B1?

Yes

No

Please give reasons for your proposals.

Especially for companies in carbon intensive industry such as mining, energy and oil, it is important to provide emission reduction target and description of how the target has been set up and achieved.

Aspect B2    Use of resources

33. Do you agree with the following general disclosure for Aspect B2: Use of resources?

Policies on efficient use of resources including energy, water and other raw materials.

Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.

Yes

No

If your answer is “No”, please give reasons and alternate views.

34. Do you agree to include KPI B2.1: “Energy consumption by type (e.g. electricity, gas or oil) in total (kwh in ‘000s) and intensity (e.g. per unit of production volume, per facility)”?

Yes

No

If your answer is “No”, please give reasons and alternate views.

35. Do you agree to include KPI B2.2: “Water consumption in total and intensity (e.g. per unit of production volume, per facility)”?

Yes

No

If your answer is “No”, please give reasons and alternate views.

36. Do you agree to include KPI B2.3: “Description of energy use efficiency initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

37. Do you agree to include KPI B2.4: “Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

38. Do you agree to include KPI B2.5: “Total packaging material used (in tonnes), and if applicable, with reference to per unit produced”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

39. Do you have any additional KPIs for Aspect B2?

Yes

No

Please give reasons for your proposals.

Disclosure of the percentage of operations in water-stressed areas.

Aspect B3    The environment and natural resources

40. Do you agree with the following general disclosure for Aspect B3: The environment and natural resources?

Policies on minimizing the operation’s significant impact on the environment and natural resources.

Yes

No

If your answer is “No”, please give reasons and alternative views.

41. Do you agree to include KPI B3.1: “Total paper used”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

This KPI will make sense for some sectors but not for others.

42. Do you agree to include KPI B3.2: “Paper use efficiency initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

This KPI will make sense for some sectors but not for others.

43. Do you agree to include KPI B3.3: “Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

44. Do you have any additional KPIs for Aspect B3?

Yes

No

Please give reasons for your proposals.

Company could also include the recycle scheme they have in place and how it could efficiently manage the environment and natural resources.

**C. Operating practices**

Aspect C1    Supply chain management

45. Do you agree with the following general disclosure for Aspect C1: Supply chain management?

Policies on risk management of supply chain.

Yes

No

If your answer is “No”, please give reasons and alternative views.

46. Do you agree to include KPI C1.1: “Number of suppliers by geographical region”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

Apart from the number of suppliers by geographical region, we also suggest the company describe the volume and value of sourcing in order to identify the significance of the suppliers.

47. Do you agree to include KPI C1.2: “Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

48. Do you have any additional KPIs for Aspect C1?

Yes

No

Please give reasons for your proposals

We suggest the companies report their engagements with the suppliers on:  
- labour issues, community relations, health & safety of working conditions and environmental standards.  
-how they monitor the issues.

Aspect C2    Product responsibility

49. Do you agree with the following general disclosure for Aspect C2: Product responsibility?

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on health and safety, advertising, labelling, privacy and methods of redress.

Yes

No

If your answer is “No”, please give reasons and alternative views.

50. Do you agree to include KPI C2.1: “Percentage of total products sold or shipped subject to recalls for safety and health reasons”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

51. Do you agree to include KPI C2.2: “Number of products and service related complaints received and how they are dealt with”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

52. Do you agree to include KPI C2.3: “Description of practices relating to observing and protecting intellectual property rights”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

53. Do you agree to include KPI C2.4: “Description of quality assurance process and recall procedures”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

54. Do you agree to include KPI C2.5: “Description of consumer data protection and privacy policies, how they are implemented and monitored”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

55. Do you have additional KPIs for Aspect C2?

Yes

No

Please give reasons for your proposals.

We suggest the company disclose what kind of corrective measures have been taken to prevent future reoccurrence, if any incidents take place.

Aspect C3    Anti-corruption

56. Do you agree with the following general disclosure for Aspect C3: Anti-corruption?

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on bribery, extortion, fraud and money laundering.

Yes

No

If your answer is “No”, please give reasons and alternative views.

57. Do you agree to include KPI C3.1: “Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

58. Do you agree to include KPI C3.2: “Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

59. Do you have any additional KPIs for Aspect C3?

Yes

No

Please give reasons for your proposals.

We think the company should disclose its internal risk assessment and management programmes on the anti-corruption areas and the policy and procedures are being monitored and implemented.

**D. Community involvement**

Aspect D1    Community investment

60. Do you agree with the following general disclosure for Aspect D1: Community investment?

Policies on understanding the community’s needs in where it operates and ensuring its activities takes into consideration of communities’ interests.

Yes

No

If your answer is “No”, please give reasons and alternative views.

61. Do you agree to include KPI D1.1: “Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

62. Do you agree to include KPI D1.2: “Resources contributed (e.g. money or time) to the focus area”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

Not a well-defined KPI to serve the purpose of narrative reporting.

63. Do you have any additional KPIs for Aspect D1?

Yes

No

Please give reasons for your proposals.

Assessment on operations that may have significant potential adverse impact on local communities, strategy and measures to mitigate risks.

### Assurance

64. Do you agree that we should not recommend that issuers to seek external assurance for issuers that report on ESG performance?

Yes

No

If your answer is “No”, please give reasons and alternative views.

- End -