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Consultation Paper on ESG Reporting Guide

This letter presents the feedback and comments by Pacific Risk Advisors Ltd. We are a sustainability risk advisory firm that focuses on ESG aspects for investors, PE Funds and financial institutions. We have worked with many locally based and international investment funds in identifying ESG risks to their investments and working with them to reduce the risks and prepare for a listing (HK or Singapore). We are willing to discuss the issues raised in this letter further HKEx if requested.

Firstly we would like to congratulate the HKEx on presenting the paper for consultation. It represents a significant move forward in the development and understanding of ESG issues as they impact and affect Hong Kong's listed companies.

Overall we strongly approve of any mechanism that generates increased awareness of all ESG matters in Hong Kong's listed companies. This increase in awareness will also further assist Hong Kong in becoming a leader in the development of environmental related industries and technologies.

We feel that Hong Kong has an excellent opportunity to be "Asia's Sustainable City" and a strong ESG framework held by HKEx can help it achieve this position.

However we do feel that there are five underlying assumptions that need to be addressed to further strengthen the success of these guidelines and ESG reporting expectations.

- 1) There is an implied assumption that the ESG data collection and reporting is a straight cost to a business; and as such the guidelines are not that progressive for fear of increasing a companies annual costs. There is no consideration, or justification that ESG management is actually a function of risk management, and that by managing ESG risks significant opportunities can be realized by all companies. ESG Management can play an important role is developing new markets, improving operational effectiveness and efficiencies. This message needs to come across throughout the documentation, guidance and training.

- 2) The guidelines are focused to listed companies only. There is no mention of ESG reporting as part of pre-listing documentation, prospectus development and pre-listing approval. Inclusion of detailed ESG risk management in all prospectuses, and details of existing ESG risk reporting should be a pre-requisite for all companies considering listing in Hong Kong. It is of paramount importance that companies preparing for listing implement sound ESG systems well before the actual listing event.
- 3) ESG risks need to be understood and factored in by the many advisory firms in Hong Kong. At present ESG is often considered a minor and last minute issue by “advisors” that often do not understand the potential materiality of the issues. Whilst this is very slowly changing, the HKEx can expand the nature of the guidance to advisory firms to ensure that significant ESG issues are understood and mitigated prior to listing.
- 4) Compliance with environmental health safety and labour regulations is made out to be *best performance expectation*. Compliance is actually the **lowest acceptable level** of performance, any lower and the company can be faced with legal consequences. Emphasis must be placed on ESG strategies to exceed ESG regulatory compliance wherever possible. Not all listed companies have Hong Kong based operations, and as such not all operational based country regulations cover ESG aspects as prescribed in Hong Kong.
- 5) While reference is made to the GRI, ISO26000 and other international ESG reporting schemes, the alignment of HK’s ESG guidance with these schemes is not clear. The ESG guidance should be developed such that a natural progression for a listed company is attaining one or more of these international schemes.

PRA appreciates that making ESG reporting mandatory at this stage will not necessarily benefit the overall approach, as many listed companies are not currently prepared or ready for such data collection, analysis and reporting. However, we do feel that an overall timeframe should be developed for when mandatory reporting will be required. This will not only help companies plan resources and internal systems, but also ensure that all companies, no matter how small, have a ESG management system in place at the earliest opportunity. This will also allow appropriate training and guidance to be provided and implemented.

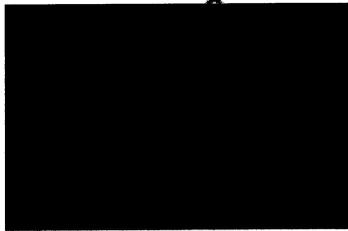
The KPI’s proposed are not expected to be all reported on at once, however significant leeway has been provided to allow selected and material KPIs only to be reported. PRA feels that a set of Core KPIs should be reported on as a minimum (i.e. 4 KPIs) which will allow ESG reporting to be comparable across all listed companies, even if in only four areas. The definition of the KPI’s needs to be very clear, and reference should be made to those defined in the GRI as they have already been accepted internationally.

HKEx also needs to recognise that multiple ESG concerns can be relevant to one issue and that they can be direct, indirect, tangible and non-tangible risks. The ESG Guide whilst not comprehensive, needs to be more orientated towards linking ESG issues to risk management for the Board and Directors to appreciate the potential bottom line impacts. Again this points to alignment with GRI etc.

The guidance should also provide a clear definition and process to determine materiality for ESG matters. This is the main area where disagreements and confusion will arise in reporting and inclusion of specific data.

I trust that these comments are found useful and if you should need further discussion or explanation please do not hesitate to contact me

Yours sincerely

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Specific Responses to Questions

No	Comment
1	Yes
2	Yes
3	Generally yes, but the ESG Report should be signed off by the Board Director responsible for ESG. We feel that a more comprehensive list of potential ESG issues and case studies be provided to help guide listed companies and those considering listing.
4	Generally yes, but there is a significant danger that by simplifying the ESG issues to such an extent that they become a “commodity reporting mechanism” developed by lower management levels and key ESG concerns are not then raised and discussed at Board Level.
5	Yes
6	Yes
7	Yes, but include C4 Operational Effectiveness
8	Yes, but compliance should be clearly defined as against regulatory and corporate standards Also include frequency of compliance determination – a planned annual inspection is not nearly effective as frequent smaller level inspections
9	Yes, but needs to include subcontracted workers not just those directly on the pay roll
10	Include employment type as this will allow seasonal differences to be identified as well as change over of subcontracted workers
11	Provision of accommodation and number of employees/subcontractors living “off site”
12	Yes
13	Yes
14	Yes
15	Yes
16	Provide a description of medical check up and ongoing surveillance for workers and any long term work related medical conditions
17	Yes
18	Yes
19	Yes
20	Minimum number of training hours per year for each employee and percent of employees that do not meet the minimum
21	Amend - ...on preventing child or forced labour in all company activities as either employees or subcontracted workers

22	Yes
23	Yes
24	KPI 4.3 Number of instances of child or forced labour identified. Reference should also be made to the key principles of SA8000 and the ILO labour provisions.
25	Yes
26	Yes
27	Yes
28	Yes
29	Yes
30	Yes
31	Yes
32	KPI B1.7 Description and extent of contaminated soils and groundwater on site as a result of past or previous operations. Description of mitigation measures to remediate contaminated materials KPI B1.8 Statement that all necessary environmental permits and approvals have been obtained for ALL land and operations, and that all operations are meeting all permits/approval conditions
33	Yes
34	Yes
35	Yes
36	Yes
37	Yes – include now and planned future operations
38	Unclear if this relates to material used in the Company packaging final goods or packing from components and assemblies to make the final good
39	KPI B2.6 Total materials recycled, reused, or processed to form secondary raw materials generated
40	Reword : Policies on minimizing the operations impact on the immediate and surrounding environment, community and natural resources
41	Yes
42	No – include paper and other resource efficiency initiatives
43	This KPI should be first – it is far more important than paper use. The question should also focused to mitigation of impacts not the management of the impacts, as well as including impacts to surrounding community that use the local environment.
44	KPI B3.4 Description of how environmental and natural resource concerns are addressed in new operations and the decision making process for including these impacts into project

	approval/rejection
45	Yes
46	Yes
47	Yes
48	KPI C1.3 Number and percentage of Suppliers removed from supply chain owing to ESG concerns KPI C1.4 Number of suppliers identified with significant non compliant ESG related operations
49	Yes
50	Yes
51	Yes
52	Yes
53	Yes
54	Yes
55	No further KPI
56	Yes
57	Yes
58	Yes
59	No further KPI
60	Yes
61	Yes
62	Yes
63	No further KPI
64	No – we should recommend that external assurance be sort wherever possible– however as the guidance is not mandatory then neither is the need for external assurance. Assurance can be sort at whatever interval the companies determines as long as once in a specified period (say 5 years to start with – so one in three reports would be better than none at all.