December 2019

香港交易所

CONSULTATION CONCLUSIONS

REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE AND RELATED LISTING RULES

CONTENTS

Page no.

EXECUTIVE SUMMARY

Introduction

1. On 17 May 2019, The Stock Exchange of Hong Kong Limited ("**Exchange**"), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited ("**HKEX**") published a "*Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules*" ("**Consultation Paper**"). The Consultation Paper sought comments on proposed changes to the Environmental, Social and Governance Reporting Guide ("**ESG Guide**" or "**Guide**"), as well as related amendments to the Rules Governing the Listing of Securities on the Exchange ("**Listing Rules**" or "**Rules**").

2. The consultation period ended on 19 July 2019. The Exchange received a total of 156 submissions [1] from a broad range of respondents, including listed companies, professional bodies and industry associations, market practitioners, investment managers, non-governmental / charitable organisations and individuals. [2] 153 responses contained original content.[3]

3. This paper presents the results of the consultation. The consultation reflects the Exchange's commitment to enhance environmental, social and governance ("**ESG**") reporting and disclosure by listed companies, building upon our ongoing ESG-related efforts since the launch of the ESG Guide. The key focus of the consultation is to support and improve issuers' governance and disclosure of ESG activities and metrics. The proposals emphasise the board's leadership role and accountability in ESG and the governance structure for ESG matters. The proposals also highlight that materiality in respect of ESG is key to meaningful and concise reporting, and echo the increasing international focus on climate change and its impact on business.

4. "Governance" is part of the ESG elements. An effective governance structure of ESG matters is fundamental to quality ESG performance and reporting. Under the principles of good corporate governance, the board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that appropriate and effective risk management and internal control systems are in place.[4] Such risks would include, amongst others, material risks relating to ESG.

Market feedback

5. There is clear support for the proposed amendments to the ESG Guide and the related Listing Rules for the enhancement of the ESG reporting framework, with all the proposals achieving between 83% and 99% support.[5]

---

[1] 12 of which were received after the close of the consultation period.
[2] See paragraph 38 for the number of responses received under each category.
[3] Submissions with entirely identical content were counted as one response. Submissions by a professional body or industry association were counted as one response irrespective of the number of individual members that the body/association represents.
[4] Principle C.2 in the Corporate Governance Code, Appendix 14 to the MB Rules (Appendix 15 to the GEM Rules).
[5] Please refer to a quantitative analysis of the responses to the consultation questions set out in **Appendix II**.

6. We conclude that all the proposals outlined in the Consultation Paper should be adopted, with certain modifications or clarifications set out in this paper.

7. Many supporters also made valuable comments on further measures to enhance our reporting frameworks for ESG and corporate governance, such as introducing additional requirements to the Corporate Governance Code (“**CG Code**”) to align with the ESG Guide, introducing additional diversity disclosures to listed issuers, and extending ESG reporting requirements to listing applicants. As these comments were outside the scope of this consultation, they will be considered in future reviews as appropriate.

Major changes adopted

8. The table below sets out a summary of our original proposals and the way forward:

	Original proposals	**Way forward**
1.	Shortening the deadline for publication of ESG reports to align with the publication timeframe of annual reports (i.e. within four months (Main Board issuers) or three months (GEM issuers) after the financial year-end)	Proceed with shortening the deadline for publication of ESG reports, with a revised timeframe of within five months after the financial year-end
2.	Printed ESG report not required (unless responding to shareholders’ specific request), with a notification of online publication	Adopt
Mandatory disclosure requirements		
3.	Introducing mandatory disclosure requirements in the ESG Guide to include:	
	• a board statement setting out the board’s consideration of ESG issues	• Proceed with requiring disclosure of board statement, with revised wordings to provide greater clarity
	• application of relevant Reporting Principles (namely, materiality; quantitative; consistency; and balance) in ESG reports	• Clarify that issuers should follow all four Reporting Principles in preparing ESG reports. Regarding disclosure, issuers are required to disclose the application of the Reporting Principles “materiality”, “quantitative” and “consistency”
	• explanation of the reporting boundary and identification process for including specific entities or operations in ESG reports	• Proceed with requiring explanation of the reporting boundary

	Original proposals	Way forward
Environmental		
4.	Introducing a new Aspect to require disclosure of significant climate-related issues which have impacted and may impact the issuer	Adopt
5.	Amending key performance indicators (“**KPIs**”) regarding emissions, energy use and water efficiency, waste reduction etc. to require disclosure of relevant targets	Adopt
6.	Revising a KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas (“**GHG**”) emissions	Adopt
Social		
7.	Upgrading the disclosure obligation of all Social KPIs to “comply or explain”	Adopt
8.	Revising the relevant KPIs to: • clarify that “employment types” should include “full- and part-time staff” • require disclosure of the number and rate of work-related fatalities occurred in each of the past three year • require disclosure of (i) practices used to identify environmental and social risks along the supply chain, and (ii) practices used to promote environmentally preferable products and services when selecting suppliers, and how these practices are implemented and monitored • require disclosure of anti-corruption training provided to directors and staff	 • Proceed to clarify that “full- and part-time staff” are non-exhaustive examples of employment types • Adopt • Adopt • Adopt
Independent assurance		
9.	Encouraging issuers to seek independent assurance to strengthen the credibility of ESG information disclosed	Adopt

About this paper

9. All submissions are available on the HKEX website[6] and a list of respondents (other than those who requested anonymity) is set out in **Appendix I**. We have also set out a summary result of our quantitative analysis of the responses in **Appendix II**.

10. This paper summarises the key comments made by respondents on the proposals, and our responses and conclusions. This paper should be read in conjunction with the Consultation Paper, which is posted on the HKEX website.[7]

11. Unless otherwise specified, the proposals with respect to the Main Board Rules apply equally to the GEM Rules. The amended Main Board Rules and the Guide (including consequential changes) are set out in **Appendix III**, while corresponding amendments made to the GEM Rules and the Guide (including consequential changes) are set out in **Appendix IV**. They have been approved by the Board of the Exchange and the Securities and Futures Commission ("**SFC**").

12. We would like to thank all respondents for their time and effort in reviewing the Consultation Paper and sharing with us their detailed and thoughtful suggestions.

Implementation date

13. We originally intended to implement the revised Rules and the Guide for financial years commencing on or after 1 January 2020.

14. To allow issuers more time to familiarise themselves with the new requirements and implement the necessary reporting infrastructure, the implementation date will be postponed to financial years commencing on or after 1 July 2020.

15. It is important for the board to take the lead and get involved from the outset, and for the issuer to gather the necessary information and put the required infrastructure in place for ESG reporting under the revised Guide. We therefore encourage issuers to start the process as early as possible before the commencement of the relevant financial year to allow fine-tuning of the infrastructure based on experience and feedback from stakeholders. Issuers are also encouraged to reference our recommendations set out in the Analysis of Environmental, Social and Governance Practice Disclosure in 2018[8] when preparing their ESG reports.

ESG reporting approach

16. We recognise there is no "one-size-fits-all" framework for ESG reporting. We would like to reiterate and remind issuers that for a "comply or explain" provision, issuers are required to report on the provision, or provide considered reasons why information in respect of the provision has not been reported.

[6] Submissions received on the Consultation Paper can be accessed at: https://www.hkex.com.hk/News/Market-Consultations/2016-to-Present/Responses_December_2019?sc_lang=en.

[7] See HKEX, Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules, May 2019.

[8] See HKEX, Analysis of Environmental, Social and Governance Practice Disclosure in 2018, December 2019.

17. Issuers should also note that “materiality” is one of the Reporting Principles which underpins the preparation of ESG reports. It is important for issuers to ascertain the ESG issues that are most material to them from the outset. Through the materiality assessment, companies can gain a fresh and fuller understanding of what ESG factors would have the greatest impact on the company’s business, prospects, asset value and reputation. This helps put the company in a better position to address those risks as necessary, which in turn leads to greater investor confidence.

18. In this context, if an Aspect in the Guide (for example, Climate Change, Supply Chain Management) is considered not material to an issuer’s business, the issuer is not obligated to disclose but instead should explain in the ESG report that such Aspect is not material to its business. An explanation is sufficient for the purposes of the Listing Rules.

19. This approach enables an issuer to prioritise and focus on relevant areas which may have an impact on the company’s businesses, its investors and its stakeholders, and decide on the ESG reporting guidelines / frameworks that best fit its own circumstances. It also affords issuers the space to develop their practice and decide on the scope of their reporting.

Next steps

20. The Exchange has provided, and will continue to provide training, resources and materials to assist issuers with their ESG reporting. We will launch our new set of director e-training on ESG reporting. To facilitate issuers’ understanding of and compliance with the new requirements, we will also update our step-by-step guide to ESG reporting: “How to Prepare an ESG Report?” (“**Step-by-Step Guide**”)[9] and our frequently asked questions (“**FAQs**”)[10], as well as the links to other resources on the dedicated webpage on the HKEX website[11].

21. The development of the ESG Guide has, and will continue to be, an evolutionary process. We believe the new changes to the ESG Guide are a step forward to achieving more comprehensive and higher quality ESG reporting amongst our issuers. We will continue to review the Guide periodically going forward, particularly in the light of any future regional or international legislative or regulatory development in this area.

[9] See HKEX, How to prepare an ESG Report?, November 2018.
[10] See HKEX, Frequently Asked Questions Series 18, May 2019.
[11] See HKEX, ESG Resources Hyperlinks.

CHAPTER 1: INTRODUCTION

Overview

Background

22. On 17 May 2019, the Exchange published the Consultation Paper, which set out proposed changes to the ESG Guide and the related Listing Rules. With an emphasis on the board's role in the governance structure for ESG matters and the importance of materiality in ESG reporting, the proposals seek to enhance our ESG framework and ensure it remains fit for purpose, and to promote the quality of ESG performance and reporting.

Recent developments

23. The recognition of the positive impact of ESG activities on an issuer's business operations and value, as well as the increasing demand by investors for more information on how issuers manage their ESG risks, has resulted in a rapidly changing global regulatory landscape in ESG matters. Since the publication of the Consultation Paper, there have been further developments in international practices of ESG reporting. Locally, the SFC has recently published the findings of its survey on integrating ESG factors and climate risks in asset management, which forms part of its initiative to encourage the consideration of ESG factors in the investment and risk management processes and enhance reporting of environmental and climate-related information.[12] It is encouraging to see that the recent developments echo the direction of travel of our proposals in respect of ESG governance and climate change disclosure.

<u>Mainland China</u>

24. In March 2019, the Shanghai Stock Exchange issued supporting rules for launching the Science and Technology Innovation Board ("**Sci-Tech Innovation Board**"), requiring companies listed on the STI Board to integrate ecological and environmental protection into their development strategy and corporate governance. Companies listed on the Sci-Tech Innovation Board should also disclose their corporate social responsibility status in their annual report, and publish a social responsibility report, sustainable development report or environment responsibility report as appropriate.[13]

<u>European Union</u>

25. In June 2019, following a public consultation, the European Commission published non-binding guidelines on reporting climate-related information ("**Climate Guidelines**")[14] to provide companies with practical recommendations on how to better

---

[12] SFC, Survey on Integrating Environmental, Social and Governance Factors and Climate Risks, in Asset Management, December 2019.

[13] Articles 4.4.2 and 8.1.2 of the "Rules of Shanghai Stock Exchange for Listing Stocks on the Sci-Tech Innovation Board": 《上海證券交易所科創板股票上市規則》 (Chinese version only).

[14] European Commission, Guidelines on non-financial reporting: Supplement on reporting climate-related information, June 2019.

report the impact that their activities are having on the climate, as well as the impact of climate change on their business.

26. The Climate Guidelines integrate the recommendations ("**TCFD Recommendations**") of the Taskforce on Climate-related Financial Disclosures ("**TCFD**") [15] and are supplemental to the general guidelines on non-financial reporting published in 2017[16].

27. On 22 October 2019, the European Securities and Markets Authority ("**ESMA**") published a statement on common enforcement priorities for 2019 annual financial reports.[17] In the statement, ESMA drew issuer's attention to the disclosures of non-financial information including environmental and climate-related matters and urged issuers to disclose, amongst other things, how they are affected by the consequences of climate change and other environmental matters.

United Kingdom ("**UK**")

28. In July 2019, the UK government published the "Green Finance Strategy Report" ("**Strategy Report**") setting out a comprehensive approach to a green financial system, including mobilising finance for clean and resilient growth.[18] Actions highlighted in the Strategy Report include: (a) the expectation on all listed companies and large asset owners to disclose in line with the TCFD Recommendations by 2022; and (b) the establishment of a joint taskforce among the UK regulators to explore the most effective way to approach disclosure, including exploring the appropriateness of mandatory reporting.

29. In light of the increasing focus on companies' strategic resilience to climate change by both ESG and mainstream investors, the Bank of England (central bank of the UK) intends to test the UK financial system's resilience to the physical and transition risks of climate change.[19] It will gather views on the design of the exercise and is developing a stress testing approach in consultation with industry, credit rating agencies and the Network for Greening the Financial System[20]. The Bank of England will publish a discussion paper in due course.

30. On 16 October 2019, the Financial Conduct Authority published a feedback statement[21] to its discussion paper "Climate Change and Green Finance" which maps out its plan of actions on climate change and green finance in the coming years. The key actions include: (a) proposing new rules requiring issuers to make climate-related disclosures aligned with the TCFD Recommendations on a "comply or explain" basis in early 2020; (b) finalising rule changes requiring Independent Governance Committees to oversee and report on firms' ESG and stewardship policies by the end of 2019; (c) publishing a feedback statement on stewardship to set out actions to

---

[15] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.
[16] European Commission, Guidelines on non-financial reporting, July 2017.
[17] ESMA, Public Statement on European Common Enforcement Priorities for 2019 Annual Financial Reports, October 2019.
[18] UK Government, Green Finance Strategy Report, July 2019.
[19] See the Bank of England, Financial Stability Report, July 2019. Also see speech on TCFD: strengthening the foundations of sustainable finance by Mark Carney, Governor of the Bank of England, October 2019.
[20] A group of 42 central banks and supervisors that represent half of global emissions. For details, please refer to Network for Greening the Financial System website.
[21] Financial Conduct Authority, Climate Change and Green Finance: summary of responses and next steps, October 2019.

address most significant barriers to effective stewardship; and (d) clarifying its expectations around green financial products and services.

31. On 22 October 2019, the Financial Reporting Council published a report entitled "Climate-related corporate reporting – Where to next?"[22] to assist companies filling the disclosure gap between investors' expectation and reporting practice on climate-related issues, and moving towards more effective and comprehensive reporting. The report sets out: (a) investors' and companies' views on the four TCFD core elements[23], with questions that companies should ask themselves to help developing their reporting; (b) questions and recommended disclosures across the TCFD core elements; (c) examples of developing reporting practice; and (d) main regulatory and market initiative relevant to companies' disclosure on climate change.

Australia

32. On 12 August 2019, the Australian Securities and Investments Commission ("**ASIC**") updated guidance on climate change-related financial disclosures.[24] The ASIC guidance incorporates the types of climate change risk identified by TCFD into a list of examples of common risks that may be relevant to prospectus disclosure. It also highlights climate change as a systematic risk that could impact companies' financial prospects in future years and that may need to be disclosed in companies' annual reports.

33. On 2 October 2019, ASIC released a review report on director and officer oversight of non-financial risk (which covers operational risk, conduct risk and compliance risk).[25] In general, ASIC found that listed companies' oversight of non-financial risks was less mature than required. Material information in relation to non-financial risks was also not properly communicated with the boards. Through publication of the findings, ASIC hoped to provide listed companies a roadmap to review their governance practices and accountability structures in respect of non-financial risk management.

United Nations ("**UN**")

34. On 23 September 2019, the United Nations organised a climate action summit.[26] 77 countries were committed to cutting greenhouse gas emissions to net zero by 2050, while many countries (and over 100 cities) announced steps to combat the climate crisis.[27]

35. The UN-convened "Net-Zero Asset Owner Alliance" was also launched in September 2019.[28] The alliance, consisting of insurers and pension funds with about USD 2.3 trillion of assets under management, pledged to rebalance their portfolios away from

---

22 Financial Reporting Council, Climate-related corporate reporting – Where to next?, October 2019.
23 The four core elements are: (1) governance, (2) business models and strategy, (3) risk management and (4) metrics and targets. For details, please refer to the TCFD website, October 2019.
24 Australian Securities & Investments Commission, 19-208MR ASIC updates guidance on climate change related disclosure [press release], August 2019.
25 Australian Securities & Investments Commission, 19-271MR ASIC releases report on director and officer oversight of non-financial risk [press release], October 2019.
26 UN, Climate Action Summit 2019 main release [press release], September 2019.
27 For details, please refer to: UN, Climate Action Summit 2019 closing release [press release], September 2019.
28 See UN-convened Net-Zero Asset Owner Alliance website.

industries with heavy carbon emissions, and targeted to have carbon neutral investments by 2050.

36. The Partnership for Carbon Accounting Financials ("**PCAF**")[29], consisting of more than 50 banks and financial institutions worldwide with about USD 3 trillion of assets under management, announced in September 2019 that they would assess and disclose the impact of their loans and investments on climate change via the use of commonly adopted carbon accounting standards. The financial institutions would utilise the carbon accounting standard developed by PCAF and this represented the launch of the first global carbon accounting initiative available for use by financial institutions. On 28 October 2019, PCAF North America published a report[30] setting out a common set of approaches that can be used to calculate greenhouse gas emission of loans and investments in six asset classes[31].

Number of responses and nature of respondents

37. This paper sets out a summary of the key comments made by respondents on the proposals set out in the Consultation Paper, and our responses and conclusions.

38. We received a total of 156 submissions[32] from a broad range of respondents, of which 153 responses contained original content.[33] The responses can be grouped into broad categories as follows:

Respondent Category	No. of responses	% of responses[34]
Institutions		
Market practitioners	32	21%
Listed companies	30	20%
Professional bodies and industry associations	22	14%
Non-governmental / charitable organisations	18	12%
Investment managers	17	11%
Other entities	9	6%
Individuals		
Individuals	25	16%
Total	**153**	**100%**

39. A list of the respondents (other than those who requested anonymity) is set out in **Appendix I**. The full text of all the submissions is available on the HKEX website.[35]

[29] See PCAF website.
[30] PCAF North America, Harmonizing and implementing a carbon accounting approach for the financial sector, October 2019.
[31] The six asset classes are: (1) residential mortgages; (2) commercial real estate; (3) business loans; (4) listed equity; (5) energy finance; and (6) motor vehicle loans.
[32] 12 of which were received after the close of the consultation period.
[33] Submissions with entirely identical content were counted as one response. Submissions by a professional body or industry association were counted as one response irrespective of the number of individual members that the body or association represents.
[34] The percentages in the column may not add up to 100% due to rounding.
[35] See footnote 6.

We would like to thank all those who shared their views with us during the consultation process.

40. The Exchange used its best judgment to categorise the respondents using the most appropriate descriptions.

Methodology

Qualitative analysis

41. We performed a qualitative analysis so that we could properly consider the broad spectrum of respondents and their views. A qualitative analysis enabled the Exchange to give due weight to responses submitted on behalf of multiple persons or institutions and the underlying rationale for a respondent's position.

Quantitative analysis

42. We also performed an analysis to determine the support, in purely numerical terms, for the proposals. For the purpose of our quantitative analysis, we counted the number of responses received, not the number of respondents those submissions represented. For example, a submission by a professional body was counted as one response even though that body may represent many members.

43. In calculating the percentage of support for or against each proposal, we excluded those respondents who did not respond or did not indicate clearly a view to that proposal. For each question, at least 85% of respondents indicated clearly their views.

CHAPTER 2: MARKET FEEDBACK AND CONCLUSIONS

Amendments to the Listing Rules

Timeframe for publication of ESG reports (Question 1)

44. We proposed amending Main Board Rule 13.91 and GEM Rule 17.103 to shorten the time required to publish an ESG report to align with the publication timeframe of the annual report (i.e. from three months after the publication of the annual report to within four months for Main Board issuers and three months for GEM issuers after the financial year-end).

Comments received

45. 83% of the respondents supported the proposal and 17% opposed it.

46. Respondents supporting the proposal commented that the shortened timeframe would enhance the timeliness of ESG reports and relevance of the disclosed data. Aligning the publication timeframes of ESG reports and annual reports could highlight the interdependency between financial and non-financial matters, allowing the board to assess these matters holistically and comprehensively. This would be conducive to the development of more coherent strategies and execution plans. Investors would also benefit from being presented with a more comprehensive picture of the company's performance with more current data. It was also believed that the proposal could encourage disclosing ESG information in issuers' annual reports.

47. On the other hand, there were concerns that aligning the publication timeframes of ESG reports and annual reports may undermine the time and resources for ESG report preparation, resulting in lower reporting quality. Extra time might be required for data collection and verification for companies to comply with globally-recognised ESG reporting standards.

Our response

48. We note there was majority support for shortening the publication timeframe of ESG reports. We also note the concern over the time and resources required for preparing ESG reports and annual reports simultaneously in order to align the publication timeframes.

49. We are also mindful that a meaningful proportion of issuers do not publish their ESG reports in tandem with their annual reports.[36]

50. Having considered the above, we will proceed with shortening the publication timeframe of ESG reports, with a revised timeframe of within five months after the financial year-end. This will apply to both Main Board and GEM issuers. We consider that this strikes the right balance between improving timeliness and relevance of ESG reporting and the resource constraints on the preparation of a quality ESG report.

[36] In our review published in December 2019 (see footnote 8), we found over 60% of the sampled issuers published their ESG reports at the same time as their annual reports (including those which published ESG reports in their annual reports).

Issuers are however encouraged to publish ESG reports at the same time as the publication of annual reports. We will consider aligning the publication timeframe of ESG reports and annual reports in the future.

ESG reports in printed form (Question 2)

51. We proposed amending the Listing Rules and the Guide to clarify that, irrespective of whether a shareholder has elected to receive the issuer's corporate communication electronically or otherwise[37], where the ESG report does not form a part of an issuer's annual report, the issuer is not required to provide the ESG report in printed form to shareholders unless responding to their specific requests. However, issuers are still required to notify shareholders that the ESG report has been published on the Exchange's and the issuer's websites.

Comments received

52. 99% of the respondents supported the proposal and 1% opposed it.

53. Respondents supporting the proposal agreed that the proposed approach was cost-effective and environmentally friendly. They also commented that having an electronic version could facilitate record-keeping, storage and retrieval of information.

54. There was a suggestion that issuers should not provide printed reports even at shareholders' request since printing in a small quantity was not environmentally friendly.

55. For respondents who opposed the proposal, while they agreed with not requiring issuers to provide an ESG report in printed form, they disagreed with the requirement to notify shareholders of the publication of ESG reports. They were of the view that a notification in printed form was not environmentally friendly and would add an administrative burden to issuers. There was a suggestion that inclusion of a note in the annual report or results announcement specifying the proposed publication and availability of the ESG report would suffice.

56. We also received a spectrum of views in respect of the format of ESG reports. While there was support for ESG reports as a single, searchable PDF document, there was also a suggestion that ESG reports could be published by posting a web link which allows for more flexible use of animation tools for presentation of ESG information. There was a suggestion that issues which change little from year to year should be set out in a "standing document" on issuers' websites, whereas the ESG report should only contain updates to the issues.

Our response

57. We note there was overwhelming support for this proposal. The few dissenting views merely opposed the requirement to notify shareholders when ESG reports are being published.

58. The requirements to provide printed ESG reports at shareholders' request and to notify shareholders of publication of the ESG reports are in line with the existing requirements for electronic dissemination of corporate communications. Under the Listing Rules,

[37] MB Rule 2.07A(1) (GEM Rule 16.04A(1)).

electronic dissemination of corporate communications by issuers is permitted provided that express or deemed consent has been obtained from their shareholders.[38] Whenever new corporate communications are published on an issuer's own website, the Rules require the issuer to notify its shareholders.[39] Upon request, a corporate communication in printed form will be promptly sent (free of charge) to shareholders who have chosen (or are deemed to have chosen) to receive corporate communications using electronic means and who for any reason have difficulty in receiving or gaining access to the corporate communications. These Rules are also consistent with the position under Hong Kong law.[40]

59. We would like to clarify that the notification should follow the method an issuer is required to follow when sending corporate communications to an individual shareholder in question, by reference to the Rules, applicable laws and the issuer's own constitutional documents. As such, depending on the delivery method chosen by a shareholder, the notification is not necessarily in printed form.

60. We consider that the arrangement for ESG reports should not deviate from that of other corporate communications, and it would not create an additional administrative burden on issuers who should already have systems in place to send corporate communications through electronic means. Therefore, we will adopt this proposal.

Amendments to the ESG Guide

A. Introducing Mandatory Disclosure Requirements (Question 3)

61. We proposed amending the Guide to introduce mandatory disclosure requirements ("**MDRs**").

Comments received

62. 89% of the respondents supported the proposal and 11% opposed it.

63. Respondents supporting the proposal considered that introduction of MDRs could encourage issuers to strengthen their ESG governance and employ robust and holistic approaches, thereby allowing issuers to internalise the strategic value of ESG reporting. It was further believed that MDRs would help issuers focus on important principles such as governance, materiality and quantitative measures when reporting on ESG issues, provide issuers with greater clarity on how to communicate information according to disclosure expectations, and increase investors' understanding of the issuers' oversight of ESG issues.

64. There was a suggestion that there should be sector-specific mandatory disclosures in the long run, which could enhance comparability among peer companies and facilitate meaningful and higher-quality reporting.

65. Some respondents suggested upgrading the disclosure obligation of all social KPIs (currently recommended but voluntary) to mandatory to ensure issuers address human rights and environmental impacts resulting from their own activities.

[38] MB Rule 2.07A(2A) (GEM Rule 16.04A(2A)).
[39] MB Rule 2.07A(2A) (GEM Rule 16.04A(2A)).
[40] Sections 831, 833(8) and 837 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

66. Some respondents opposed the introduction of any mandatory disclosure. It was premature to introduce mandatory disclosures as ESG reporting was relatively new to Hong Kong issuers, where issuers had not been required to perform ESG reporting until 2016. Some also considered the current reporting requirements sufficient, and a higher disclosure obligation would require much management effort without apparent benefit to corporates. The proposal would complicate disclosure efforts and step up management efforts, resulting in an overall reporting quality downgrade. Additional requirements should be introduced as "recommended best practices" or at most "comply or explain" provisions.

Our response

67. It has been widely recognised that ESG risks present financial, operational and compliance risks to companies. ESG is not merely a corporate social responsibility or a reputational issue. These risks affect businesses, and failure to manage these risks carefully may bring about a real financial impact to the company. Investors are increasingly demanding for more information on how issuers manage their ESG risks. International practices of ESG reporting are calling for more robust disclosure of ESG risks (in particular, climate-related risks).

68. The purpose of introducing mandatory disclosures is to urge issuers to consider ESG matters seriously. It is essential for the board to assess the potential impacts of ESG issues on their company's overall strategy, as over the medium to long term these issues could have a material impact on a company's ability to generate returns. The board should identify and evaluate ESG risks and opportunities in the context of the issuer's strategic objectives. We believe ESG risk management should be on every board's agenda. Many respondents shared our view that it is important for the board to take the lead on, and have oversight of, ESG issues, which would help promote the board's understanding of ESG issues and the board's accountability.

69. Having considered the benefits that ESG reporting can bring to issuers, as well as to the quality, sustainability and reputation of our market, we agree that it is an appropriate time to impose a higher level of reporting obligation on issuers to emphasise the areas which are fundamental to ESG reporting.

70. In light of the above, we will adopt the proposal.

Governance structure

Mandatory board statement (Question 4)

71. We proposed mandating disclosure of a statement from the board containing the following elements:

    (a) a disclosure of the board's oversight of ESG issues;

    (b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and

    (c) how the board reviews progress made against ESG-related goals and targets.

Note on information included in board statement (Question 5)

72. We also proposed setting out in a note that the board statement should include information on the issuer's current ESG management approach, strategy, priorities and goals/targets and an explanation of how they relate to the issuer's businesses ("**Note to Board Statement**").

Comments received

73. 88% of the respondents supported requiring disclosure of the board's statement and 12% opposed it. Regarding the Note to Board Statement, 86% of the respondents supported the proposal and 14% opposed it.

74. Respondents supporting the proposal agreed that the proposed board statement could develop a top-down approach to ESG issues, which would filter down to all levels of the company. Disclosure of the board's review process on ESG issues could boost investors' and stakeholders' confidence on an issuer's ESG performance, and help advance investors' understanding of the board's oversight of ESG issues and the integration of ESG risk management in the issuer's long-term strategy.

75. Some respondents suggested including additional details in the board statement, such as "how" the board exercises oversight of ESG issues, the level of ESG expertise within the board, description of the most material ESG issues identified and actions undertaken to mitigate risks arising therefrom, and the timeframe for evaluating management decisions on ESG issues. There was also a suggestion that documentary evidence, such as board meeting agendas and minutes, should be provided.

76. Respondents opposing the proposal believed that ESG risks might not be material to certain issuers' businesses and the content of disclosure should be based on issuers' strategic needs.

77. Some respondents worried that board members, especially those of small-to-medium-sized enterprises, might not have adequate skills and knowledge about ESG. There was a call for more clarification and guidance regarding the form and content of the board statement. Some respondents questioned whether the content in the Note to Board Statement was mandatory in the board statement.

Our response

78. Given the importance of the board's governance on ESG matters as mentioned in paragraphs 67 and 68 above, stakeholders would expect information relating to ESG governance in ESG reports. Disclosure of the ESG governance structure will allow investors and stakeholders to assess the issuer's commitment to and effort in ESG matters and the quality of its ESG governance.

79. The ESG Guide already contains wording to the effect that oversight of ESG issues is the board's responsibility. In our reviews of issuers' ESG disclosure performance[41], we observed that the ESG reports generally lacked details in respect of the board's involvement in the ESG reporting process and the ESG governance structure. We believe our proposal to require disclosure of the board statement on ESG governance

[41] See HKEX, Analysis of Environmental, Social and Governance Practice Disclosure in 2016/2017, May 2018 and footnote 8.

structure will strengthen this area. We will therefore adopt the proposal.

80. Regarding the content of the board statement, it should be noted that the proposed requirement was only intended to set out the basic framework for reporting the board's oversight of ESG matters. Every issuer should consider its own circumstances to determine the level of disclosure appropriate for its shareholders. To address the confusion over the disclosure obligation of the Note to Board Statement, we will integrate the Note to Board Statement into the board statement requirement. The board statement should contain the following elements:

    (a) a disclosure of the board's oversight of ESG issues;

    (b) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and

    (c) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.

81. We note a suggestion of providing documentary evidence. Issuers are reminded that the information contained in all corporate communications required under the Listing Rules (which include ESG reports) must be accurate and complete in all material respects and must not be misleading or deceptive[42], and the directors are collectively and individually responsible for ensuring the issuer's full compliance with the Listing Rules[43].

82. To address concerns about the lack of skills and knowledge about ESG and how to make the disclosure, guidance will be provided to assist issuers regarding the establishment of the governance structure and the expected disclosure.

Reporting Principles (Question 6)

83. We proposed mandating disclosure of an explanation on how the issuer has applied the Reporting Principles (namely, "materiality"; "quantitative"; "consistency"; and "balance") in the preparation of the ESG report.

Comments received

84. 85% of the respondents supported the proposal and 15% opposed it.

85. Respondents supporting the proposal considered that requiring disclosure of the application of the Reporting Principles could enhance the transparency of ESG reports and allow investors to make objective assessments, and historical and industrial comparisons.

86. Some respondents further suggested requiring issuers to provide a confirmation statement endorsed by the board on compliance with the Reporting Principles, or explaining the reasons for not complying.

87. There was a call for aligning the Reporting Principles to international standards, for

42 MB Rule 2.13(2) (GEM Rule 17.56(2)).
43 MB Rule 13.04 (GEM Rule 17.03).

example, the standards issued by the Global Reporting Initiative ("**GRI**") (i.e. the GRI Standards), the TCFD Recommendations, or the Sustainability Accounting Standards Board's ("**SASB**") framework.

88. Respondents opposing the proposal commented that the application of the Reporting Principles would be self-evident, and any narrative on such application would not serve any benefit. There was also a concern about the difficulty in explaining the application of a Reporting Principle.

89. Some respondents requested more guidance to ensure meaningful disclosure.

Our response

90. We would like to reiterate that the Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented. Issuers are expected to follow the Reporting Principles when preparing ESG reports. Explanation on how these Reporting Principles are applied will enable investors to better understand issuers' overall management of ESG issues.

91. We note the concern about the difficulty in explaining the application of all Reporting Principles. It is also acknowledged that the application of a certain Reporting Principle (for example, "balance") may be evident in the ESG report itself.

92. Having considered the above, we will revise the ESG Guide such that the Reporting Principles which all issuers must follow in ESG reporting will be delineated in the disclosure required under each relevant Reporting Principle. We will make it clear that issuers are expected to follow all four Reporting Principles when preparing their ESG reports. Regarding the disclosure, issuers will be required to disclose in the ESG reports an explanation of how they have applied the Reporting Principles "materiality", "quantitative" and "consistency".

93. We will revise our guidance materials and provide training to address respondents' request for more guidance on the expected disclosure.

<u>Materiality (Question 7)</u>

94. We proposed amending the existing wording regarding the Reporting Principle onf "materiality" to make it clear that (a) materiality of ESG issues is to be determined by the board; and (b) the issuer must disclose the process for the selection of material ESG factors, including a description of significant stakeholders identified, the process and results of the issuer's stakeholder engagement (if any), and the criteria for the selection of material ESG factors.

Comments received

95. 86% of the respondents supported the proposal and 14% opposed it.

96. Respondents supporting the proposal agreed that determination of material ESG issues should be the responsibility of the board, and the revised wording on "materiality" would improve accountability of the board on ESG issues. It was believed that disclosure on the process used to identify ESG risks would largely enhance the transparency of issuers' materiality assessment of ESG issues.

97. We observed diverse views on stakeholder engagement. Some respondents felt that stakeholder engagement was critical to materiality analysis. However, there were also comments that the board should be given full authority in determining what constitutes an appropriate materiality assessment for their company. A few respondents believed that materiality should be assessed by looking at both financial materiality and stakeholder materiality. Some respondents commented that engaging stakeholders every year was not necessary, and issuers might not have sufficient resources to conduct in-depth stakeholder engagement.

98. There was a suggestion that reference to international industry materiality guidelines (such as those issued by the GRI) or indicators used by established ESG rating agencies should be made. Reference to SASB's Materiality Map[44] might also help identification of material issues for companies in specific industries.

99. There was a concern that not all directors would have the capability and expertise to identify material ESG information. More training and guidance was requested on how to conduct a materiality assessment.

Our response

100. For ESG reporting there is no "one-size-fits-all" approach. Depending on the industry, the geographical location of an issuer's operations and other factors, the issuer may consider certain Aspects material whilst others may not.

Board's responsibility to determine "materiality"

101. Materiality assessment facilitates an issuer's ability to prioritise and focus its resources on such ESG issues that are material and relevant to its business and operations, and serves as a part of the risk assessment process. It is the board's responsibility to evaluate and determine the nature and extent of the risks it is willing to take to achieve the issuer's strategic objectives, and ensure that appropriate and effective risk management and internal control systems are in place.[45] Such risks include, amongst others, material risks relating to ESG.

102. The proposal to state that the board determines the materiality of ESG issues echoes our emphasis on the importance of the board's governance of ESG issues. Therefore, we will proceed with the proposal.

Disclosure of "materiality"

103. In our reviews of issuers' ESG disclosure[46], we observed that some ESG reports lacked details of materiality assessment and the criteria for selecting material ESG factors. The required disclosure of "materiality" is intended to improve this area.

104. Regarding the comments on stakeholder engagement, we consider that the process of stakeholder engagement serves as one of the tools to enable the company to understand the reasonable expectations and interests of stakeholders, as well as their information needs. It is a widely employed method for assessing materiality. It can take many different forms, ranging from daily contact with clients / suppliers / employees to

[44] See SASB, Materiality Map.
[45] Principle C.2 in the CG Code, Appendix 14 to the MB Rules (Appendix 15 to the GEM Rules).
[46] See footnote 41.

large-scale surveys or discussion groups. As materiality assessment is a company-specific activity, it should be left to the issuer to determine how and the extent to which they approach this, and what method should be adopted.

105. We will therefore revise the wording of the disclosure required for the Reporting Principle on “materiality” principle to clarify our emphasis on disclosure regarding the identification process of and selection criteria for material ESG factors, as well as our position that stakeholder engagement is not mandatory.

106. We will include more guidance in our Step-by-Step Guide and FAQs, as well as provide training, to assist issuers in materiality assessment and the relevant disclosure.

Quantitative (Question 8)

107. We proposed amending the existing wording regarding the Reporting Principle on (a) “quantitative” to require disclosure of information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption (where applicable); and (b) to clarify that while KPIs for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions.

Comments received

108. 85% of the respondents supported the proposal and 15% opposed it.

109. Respondents supporting the proposal agreed that disclosure of standards and methodologies could help enhance transparency of ESG reports. Respondents also believed that reporting a quantitative target was sensitive and issuers might be prone to report a lower and more achievable target. Directional statement could help issuers, who had been wary of quantifiable and prescriptive reporting of targets, to make informative disclosures.

110. Some respondents suggested that specific reference should be made to the best local and/or international standards or methodologies (for example, TCFD Recommendations, the Transition Pathway Initiative and Climate Action 100+) to ensure consistency and improve comparability among issuers.

111. Respondents opposing the proposal were concerned that disclosing calculation of KPIs could be a very complicated exercise for issuers operating in multiple jurisdictions and industries, which may potentially confuse the public. There was also a comment that the proposal was too demanding for small-to-medium-sized issuers.

112. There was a call for more guidance on how to present targets using directional statements, and the level of details required for disclosure of standards and methodologies used for calculation of data.

Our response

113. We believe our proposal to require disclosure of standards and methodologies used for calculation of data improves transparency and increases stakeholders’ understanding of the ESG data. This enables stakeholders to compare ESG information among different issuers, which in turn facilitates assessment of a company’s performance. We will therefore adopt the proposal.

114. Our proposal to clarify that targets may be expressed by way of directional statements or quantitative descriptions will provide flexibility to issuers in setting meaningful targets, which in turn enable issuers to evaluate the effectiveness of their ESG policies and management systems. We will therefore adopt the proposal.

115. We note the comments on making reference to international standards or methodologies. Issuers are encouraged to refer to or adopt international ESG reporting standards or guidelines for their relevant industries or sectors. The current FAQs on ESG contain a table setting out the provisions of our Guide against comparable provisions in several leading international reporting guidelines. Our ESG webpage also contains links to useful resources and reference materials for issuers, and we will update the links from time to time.

116. To address respondents' requests for guidance on directional statements and the disclosure required for the Reporting Principle on "quantitative", we will provide examples of directional statements in the Step-by-Step Guide.

Reporting boundary (Question 9)

117. We proposed mandating disclosure of an explanation of the ESG report's reporting boundary, disclosing the process used to identify the specific entities or operations that are included in the ESG report.

Comments received

118. 89% of the respondents supported the proposal and 11% opposed it.

119. Respondents supporting the proposal agreed that requiring disclosure of the reporting boundary could add clarity and structure to the ESG report, allow readers to have better understanding of the content of ESG reports and improve the comparability of information and issuers' performance.

120. A number of respondents further suggested setting a minimum threshold for inclusion by reference to business significance, for example subsidiaries or operations exceeding a certain percentage of issuers' profits, assets or turnover. Some respondents suggested requiring disclosure of the process or method used to exclude entities and operations. There was a comment that boundaries may vary from one Aspect to another and descriptions of boundaries for each Aspect should be provided.

121. Respondents opposing the proposal were concerned that resources of issuers might be limited and the explanation might only be applicable to heavy industries.

Our response

122. In determining the scope of the ESG report, an issuer should have its own criteria depending on its own business and circumstances. An explanation of the reporting boundary enhances the transparency of the ESG reports and allows readers to appreciate the scope of the ESG reports. This could facilitate a more comprehensive understanding of the ESG reports.

123. We do not consider it appropriate to prescribe a minimum financial threshold for a reporting boundary. The financial significance of a business operation may not be

directly proportional to its associated ESG risks. Issuers should determine their appropriate criteria for determining the reporting boundary under their unique circumstances. If different boundaries are adopted for different Aspects, issuers should disclose such information in their ESG reports.

124. Under our proposal, issuers are already required to disclose the identification process of including specific entities or operations. Similar disclosure of excluded entities or operations is the opposite of the same coin and appears to be redundant for readers.

125. Having considered the above, we will adopt the proposal.

B. Introducing Aspect on Climate Change and revising the Environmental KPIs

Climate Change (Question 10)

126. We proposed introducing a new Aspect A4 consisting of:

(a) General Disclosure - policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; and

(b) a KPI - requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them.

Comments received

127. 86% supported the proposal and 14% opposed it.

128. Respondents supporting the proposal agreed that climate-related issues should be a standing item to be reported on, as it has been increasingly relevant to all businesses. Respondents also believed that this proposal reflected the Exchange’s support for the TCFD Recommendations. Disclosure of impacts on issuers’ businesses due to climate change could raise the standard of reporting and enable investors to make informed decisions.

129. Some respondents further suggested requiring additional disclosures under the new Aspect which are more aligned with the TCFD Recommendations, such as physical risks and transition risks; scenario-based analysis and sector-specific requirements.

130. Respondents opposing the proposal commented that the new Aspect on climate change would not be material to all issuers. In addition, issuers might not be equipped with professional knowledge and resources to report on the new Aspect.

Our response

131. Climate change poses serious risks to the global economy and has an impact across many sectors in which our issuers operate. These risks could have significant impact on the issuers’ long term sustainability. Investors are demanding more information on how climate change has impacted or may impact a company, and are expecting to see

efforts being made by the reporting companies to tackle this important issue. The new Aspect on climate change reflects the TCFD Recommendations' call for disclosure of the actual and potential impacts of climate-related risks and opportunities on the company, which has been widely adopted globally. In light of the vast majority support from the market, we will adopt the proposal.

132. We note the concerns raised by the respondents who opposed the proposal. We reiterate that the disclosure obligation under the new Aspect on climate change, like all other Aspects in the Guide, is on a "comply or explain" basis. Accordingly, if an issuer considers that climate change is not material to its business and operations, an explanation of that fact in the ESG report will suffice.

133. We will update our guidance materials to include issues that may be covered under this new Aspect to assist issuers in making the required disclosure. We will also include an explanation that "climate-related issues" refer to both transition risks (e.g. changes in policies, laws and regulations and market behaviour) and physical risks (e.g. natural disasters).

Targets (Question 11)

134. We proposed revising the Environmental KPIs (where applicable) to require disclosure of a description of targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them.

Comments received

135. 83% supported our proposal and 17% opposed it.

136. Respondents supporting the proposal agreed that requiring disclosure of targets could encourage issuers to proactively manage their ESG risks related to environmental issues. This would enable readers of the ESG reports to have a more comprehensive understanding of how these risks were managed.

137. Some respondents further suggested that specific and science-based targets could be set. There was also a suggestion that disclosures of targets could be aligned to the TCFD Recommendations and the Sustainable Development Goals adopted by the UN.

138. Respondents opposing the proposal commented that issuers might lack the resources and knowledge for target-setting, and the targets were only best estimates. Some respondents were concerned that setting quantitative targets was not realistic as they might not be achievable. There was also a comment that as different bases were used by issuers in target-setting, peer comparison might not be possible.

Our response

139. Currently, issuers are required to disclose "results achieved" from their initiatives to reduce emissions / waste. Our proposal to require disclosure of targets regarding emissions, energy use, water efficiency, waste reduction etc. is the logical next step, moving from historical results to forward-looking information. This is in line with investors' expectations, and is consistent with the incremental approach we have been taking in ESG reporting.

140. We believe disclosure of targets regarding emissions, energy use, water efficiency,

waste reduction etc. facilitates issuers' progress evaluation, driving issuers' continuous scrutiny of their strategies and systems. The enhancements made will in turn result in better risk management and improved performance, bringing long-term benefits to the company. Targets may be expressed by way of directional statements. With the market support, we will adopt the proposal.

141. We will provide guidance in the Step-by-Step Guide to assist issuers in target-setting. Issuers are also reminded that all Environmental KPIs are subject to "comply or explain" provisions. Accordingly, issuers are only required to disclose and set targets for Environmental KPIs that are considered material to them.

GHG emissions (Question 12)

142. We proposed revising an Environmental KPI to require disclosure of Scope 1 and Scope 2 GHG emissions.

Comments received

143. 90% of the respondents supported the proposal and 10% opposed it.

144. Respondents supporting the proposal considered that disclosures on Scope 1 and Scope 2 emissions could provide readers with a more complete picture on issuers' GHG emission. The required disclosures were in line with international carbon accounting standards and global leading practices.

145. A number of respondents further suggested that issuers should also disclose Scope 3 emission and projections on emission data.

146. Respondents opposing the proposal took the view that reporting Scope 1 and Scope 2 emissions was too complicated, and were concerned about the accuracy of the disclosed data without a qualified expert.

Our response

147. Disclosure of Scope 1 and Scope 2 emissions is required by most international standards. We also observed that a majority of issuers already report on GHG emissions according to the scope classifications in their ESG reports, despite being a voluntary requirement only. With the overwhelming support from respondents, we will therefore adopt the proposal. We will update our Step-by-Step Guide to provide assistance to issuers in this area.

148. Regarding disclosure of Scope 3 emission, we do not consider it appropriate to impose such a requirement at this stage.

C. Upgrading the disclosure obligation of Social KPIs (Question 13)

149. We proposed upgrading the disclosure obligation of all Social KPIs from recommended disclosures (i.e. voluntary disclosures) to "comply or explain".

Comments received

150. 88% of the respondents supported the proposal and 12% opposed it.

151. Respondents supporting the proposal agreed that upgrading the disclosure obligation of Social KPIs could encourage a more comprehensive disclosure and rightfully solidify the importance of social performance of businesses. The proposal was also in line with global practice.

152. Some respondents went further and suggested expanding the scope of Social KPIs to cover areas such as human rights, tax policy and political lobbying etc. There was also a suggestion to make reference to international standards such as the UN Sustainable Development Goals and the UN Guiding Principles on Business and Human Rights to require mandatory human rights due diligence.

153. Respondents opposing the proposal considered that issuers should decide what to disclose based on their cost-benefit analysis, and suggested that these Social KPIs be left as “recommended best practices”. Some respondents believed that the current disclosure obligation level (i.e. voluntary) was adequate. There was also a comment that certain information might be too sensitive to disclose, for example the number of suppliers.

Our response

154. Our proposal to upgrade the disclosure obligation of Social KPIs from recommended (i.e. voluntary) disclosures to “comply or explain” emphasises equal treatment of environmental and social risks. This aims to raise issuers’ awareness of the possible impact resulting from social issues, which may be of no less importance than environmental risks. In light of the market support, we will adopt the proposal.

155. Regarding the comment on expanding the scope of Social KPIs, we reiterate that the ESG Guide sets out the minimum parameters for ESG reporting, and includes areas the Exchange considers applicable to most Hong Kong issuers.

156. It is important to note that if any of the Social KPIs is considered immaterial to an issuer’s businesses, the issuer should explain rather than make irrelevant disclosures. We will also provide guidance in the Step-by-Step Guide on Social KPIs similar to that on Environmental KPIs.

D. Revising the Social KPIs

Employment types (Question 14)

157. We proposed amending a KPI to clarify that “employment types” include “full- or part-time staff”.

Comments received

158. 90% of the respondents supported the proposal and 10% opposed it.

159. Respondents supporting the proposal considered that this provided greater clarity, and

the clearer definition would facilitate better comparison and benchmarking. It was also believed that the proposal was in line with global standards (for example, the GRI standards).

160. There was a comment that definitions of “full-time staff” and “part-time staff” may vary across different jurisdictions and industries. A number of respondents commented that “employment types” should cover other types of employment such as contractors, permanent or temporary staff, interns etc. Issuers should have the flexibility to describe the various employment types applicable to their policies.

161. Respondents opposing the proposal considered that the clarification was not necessary.

Our response

162. There is overwhelming support from respondents for the proposal to clarify “employment types”. Our clarification aims to provide issuers an illustration and to list the most common forms of employment to facilitate issuers’ reporting on this KPI.

163. We acknowledge that “employment types” are complex and an issuer may classify employment in categories other than “full- and part-time staff”. Issuers should categorise their employment type based on their business models, and may refer to other international standards. Issuers are encouraged to include other employment types (for example, permanent staff or contractors etc.) when reporting this KPI if these employment types are considered material to their workforce.

164. We will proceed with the proposal, with revised wording to make it clear that “full- and part-time staff” are non-exhaustive examples of employment types.

Rate of fatalities (Question 15)

165. We proposed amending a KPI on fatalities to require disclosure of the number and rate of work-related fatalities occurring for each of the past three years including the reporting year.

Comments received

166. 86% of the respondents supported the proposal and 14% opposed it.

167. Respondents supporting the proposal agreed that the proposed KPI on fatalities was a proper indicator for health and safety governance and would improve transparency. Disclosure of the track-record could help track performance and mitigate risk over time.

168. There were suggestions that this KPI should include indirect labour (agency, contract workers) or the issuers’ supply chain, and that an analysis of root causes of fatalities and remedial measures to reduce the number of fatalities should be provided. There was also a comment that the three-year track record should be extended to five years.

169. Respondents opposing the proposal commented that issuers should be given the flexibility to decide whether to disclose the fatality rate subject to its legal implications. Some respondents were of the view that work-related fatalities would vary across industries, investors might not be able to understand without knowing the industries’ context. Given the sensitive nature of work-related fatalities, the information might

easily trigger negative emotions.

Our response

170. We note a majority of respondents supported our proposal and agreed that the required disclosure of work-related fatalities for each of the past three years could encourage issuers to better monitor their workplace safety. This will help issuers review their safety practice and provide useful information to investors and stakeholders.

171. Regarding the comment that this KPI should extend to indirect labour or the issuers' supply chain, we would like to point out that issuers should consider extending the reporting to other forms of employment if they are considered material to the workforce. We also note the comment on the length of the track record period, but consider that a three-year track record will be appropriate at this stage. We will therefore adopt the proposal.

172. We understand the concern about the legal implication relating to workplace fatalities. Issuers should explain in their ESG reports if they are unable to make the required disclosure due to legal restrictions, and offer a description of such legal restrictions.

Supply chain management (Question 16)

173. We proposed introducing the following new KPIs in respect of supply chain management:

    (a) Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.

    (b) Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.

Comments received

174. 84% of the respondents supported the proposal and 16% opposed it.

175. Respondents who supported the proposal were of the view that the new KPIs on supply chain were important for managing ESG risks and opportunities, particularly regarding responsible business and data protection practices in the management of customers and their data. The required information was a good proxy for the quality of risk management. It was useful for investors and was in line with global leading practices.

176. There were suggestions that further disclosure of supplier information should be required, for example, information on safety control, modern slavery, gender diversity and social inclusiveness in the supply chain. There was also a comment that the proportion of environmentally friendly products as a percentage of total procurements should be disclosed.

177. Respondents opposing the proposal commented that cost was the most important supplier selection criterion for most issuers. They were concerned that the new KPIs would place an undue burden on smaller issuers to implement and monitor their suppliers.

178. Some respondents requested clarification on how far down the supply chain would be necessary for compliance with the new requirement.

Our response

179. The proposed new KPIs on supply chain recognises the importance of supply chain to operating a "sustainable business". Requiring disclosure of practices for identification and monitoring of environmental and social risks along the supply chain will heighten an issuer's awareness of ESG risks in its procurement process. The information also allows investors to assess the risks associated with the issuer's supply chain.

180. We note the suggestions to require further disclosure of information relating to suppliers. However, the disclosure relating to the supply chain aims to offer transparency on how issuers manage environmental and social risks along the supply chain, and not specific factual information on the suppliers.

181. The new KPIs do not require issuers to select suppliers based on social factors. We acknowledge that financial consideration may be the primary criterion in selecting a supplier. However, it is also important for issuers to be aware of and monitor their ESG risks in their procurement process.

182. In light of the above and the support from respondents, we will adopt the proposal. Regarding how far down the supply chain the disclosure should encompass, issuers should consider their own circumstances to determine the depth of the disclosure that is considered material and appropriate to them. In some cases, disclosure of issuers' direct suppliers may be sufficient.

Anti-corruption (Question 17)

183. We proposed introducing a new KPI requiring disclosure of anti-corruption training provided to directors and staff.

Comments received

184. 94% of the respondents supported the proposal and 6% opposed it.

185. Respondents supporting the proposal agreed that the new KPI was important as corruption was a material risk to most businesses and proper training should be in place. It would help promote the engagement of issuers' senior leaders in relation to responsible business practices, increase focus on issuers' integrity and boost investor confidence.

186. Some respondents suggested that disclosure under this KPI should include the number of directors or staff trained, the content and the outcomes of the anti-corruption training.

187. There was a suggestion to require disclosure of the number of staff disciplined or dismissed due to non-compliance with anti-corruption policies, as well as information on the costs of fines, penalties and settlement for corruption made by the issuers. There were also comments that issuers should disclose policies and measures on bribery and whistleblowing. Some respondents considered that anti-corruption training should be carried out by a third party.

188. Respondents opposing the proposal considered that issuers may not have resources to organise anti-corruption training and workshops on a regular basis.

Our response

189. The proposed KPI on anti-corruption training reflects our recognition that anti-corruption is an important Aspect of ESG reporting. Through training of directors and staff, we hope issuers will establish a healthy corporate culture and promote high ethical standards within the entity. In light of the overwhelming support from respondents, we will adopt the proposal.

190. The ESG Guide only sets out the minimum parameters for ESG reporting, and includes areas the Exchange considers will be applicable to most Hong Kong issuers. Issuers are encouraged to disclose additional information they consider appropriate and material under this KPI, including the suggested information mentioned in paragraph 186 above. Regarding the comments mentioned in paragraph 187, it should be noted that such disclosures are already expected under Aspect B7 on "Anti-corruption" (either as General Disclosures or KPIs). At this stage, we do not intend to impose any requirement on the training provider.

191. We note there was concern regarding resources for organisation of anti-corruption training and workshops. However, anti-corruption is essential to the establishment of a good corporate culture and issuers should devote adequate resources to this area. We will provide resource links in our guidance materials to assist issuers in this regard.

E. Encouraging independent assurance (Question 18)

192. We proposed revising the ESG Guide to state that the issuer may seek independent assurance to strengthen the credibility of ESG information disclosed; and where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report.

Comments received

193. 86% of the respondents supported the proposal and 14% opposed it.

194. Respondents supporting the proposal agreed that independent assurance could enhance the credibility of ESG information disclosed and the quality of ESG reporting. It could provide investors with more reliable data for analysis. The required information on assurance improved transparency.

195. There were diverse views on whether independent assurance should be voluntary or mandatory. While some respondents believed that this should be voluntary to allow issuers flexibility, there were also views that this should be mandatory for more credible data.

196. Respondents opposing the proposal considered that there was no need for independent assurance as long as issuers could provide a robust assessment of the ESG information. Some respondents were concerned about the costs, and urged the HKSAR Government to provide a subsidy, especially to small-to-medium-sized enterprises. There were also concerns that the quality of independent assurance would

vary, given there is no accredited authority to govern the standards of assurance service providers.

197. It was suggested that the HKSAR Government should establish a cross-sector steering committee for developing a blueprint for ESG development in Hong Kong.

198. Some respondents requested more resources or guidance on globally-recognised assurance standards and a list of assurance service providers.

Our response

199. We note a majority of respondents acknowledged the benefits to the company brought by assurance. Where independent assurance is obtained, we believe issuers should describe the level, scope and processes adopted to provide more detail to stakeholders about the assurance given.

200. We understand the concerns about cost and the potential compliance burden that may be imposed on issuers. We also note that a globally-accepted assurance standard is yet to be developed. We reiterate that issuers are encouraged, but not required, to seek independent assurance. In light of the above, we will adopt the proposal.

201. The Exchange is not in a position to opine on the quality of service providers and we will not prescribe a list of assurance service providers or an assurance framework. However, we will include relevant resources in our guidance materials to assist issuers in this regard.

F. Implementation date

202. We proposed implementing the revised Listing Rules and the Guide for financial years commencing on or after 1 January 2020.

Comments received

203. There was a call for a longer transition period for implementing the changes.

204. A number of issuers, professional bodies and market practitioners commented that certain new requirements, in particular, advancing the deadline for publication of ESG reports and the mandatory disclosure requirements, may involve substantial adjustment to an issuer’s ESG compliance process.

205. There was also a comment that the new Aspect on climate change and the new KPIs on supply chain might require issuers to collect the relevant data for the first time, and they may require more time to establish the necessary system.

Our response

206. Having considered the comments received, we have decided to postpone the implementation date.

207. We intend to implement the new requirements for financial years commencing on or after 1 July 2020. We believe this will allow sufficient time for issuers to familiarise

themselves with the new requirements and implement the necessary reporting infrastructure.

208. It is important for the board to take the lead and get involved from the outset, and for an issuer to gather the necessary information and put the required infrastructure in place for ESG reporting under the revised Guide. We therefore encourage issuers to start the process as early as possible before the commencement of the relevant financial year to allow fine-tuning of the infrastructure based on experience and feedback from stakeholders. Issuers are also encouraged to reference our recommendations set out in the Analysis of Environmental, Social and Governance Practice Disclosure in 2018[47] when preparing their ESG reports. Issuers may consider including descriptions in the upcoming ESG reports on the plan(s) or any steps taken to prepare for the new requirements.

G. Additional comments

209. We received valuable comments on further measures to enhance our ESG Guide and related Rules, as well as enhancements to our corporate governance reporting framework, which although outside the scope of this consultation, would be considered in future reviews. We summarise below the comments on introducing additional diversity disclosures to listed issuers and extending ESG reporting requirements to listing applicants. There were also suggestions to align with or make reference to international standards in respect of certain ESG disclosure requirements. Some respondents called for an introduction of additional requirements in the CG Code to align with the ESG Guide.

Diversity

210. A number of respondents suggested introducing additional KPIs on: (i) key gender statistics on workplace and board; (ii) policies on fair and equal payments to employees, and (iii) sexual harassment in the workplace. There was also a call for disclosure requirements for initiatives and policies on maternity, paternity, parental leave and for the leave rates by gender.

211. In respect of Aspect B1 on "Employment", there were suggestions to include information on turnover, new job applications and promotions by gender, gender pay gap, as well as targets for achieving gender diversity at different management levels.

212. There was also a suggestion to combine the existing requirements in respect of board and gender diversity in a new section to be set out in the CG Code as a mandatory disclosure requirement.

ESG reporting requirements to listing applicants

213. There was a comment that it was crucial for listing applicants to turn their mind to ESG-related risks at the outset and be prepared to tackle such risks as soon as they are listed. It was suggested that bespoke ESG disclosure guidance should be provided for listing applicants.

[47] See footnote 8.

International standards

214. We note a number of respondents suggested aligning with or referencing to international standards in respect of certain disclosure requirements, such as the Reporting Principles, materiality assessment, the new Aspect on climate change and certain Social KPIs.

Suggestions to the CG Code

215. Some respondents suggested introducing corresponding requirements to the CG Code to align with the new requirements under the ESG Guide. There were suggestions to include in the CG Code additional disclosure requirements on the board's ESG responsibilities (as part of the board's terms of reference), integration of the board's oversight of ESG issues into risk management, ESG board committee (if any), as well as anti-bribery and whistleblowing policies and measures.

216. A respondent further suggested that ESG reporting and corporate governance reporting could be merged into one single document at an appropriate stage in the future.

Our response

217. The development of the ESG Guide has been, and will continue to be, an evolutionary process, with the longer term goal of achieving better and more comprehensive ESG reporting amongst our issuers. Whilst we note these suggested amendments, we cannot bring in these new proposals at this stage as these proposals were not included in our consultation.

218. In May 2019, we revised the Guidance Letter[48] on disclosure in listing documents by new applicants to require additional disclosure on policy of board diversity (including gender) and how gender diversity of the board can be achieved in the case of a single gender board. The revised Guidance Letter also sets out the expected disclosure of ESG matters, including material information on an applicant's environmental policies, and details of the process used to identify, evaluate and manage significant ESG risks. Listing applicants prefer to find guidance on prospectus disclosure in one single document rather than across several topic specific guidance.

219. We note the comment on international standards. We however consider that prescribing specific standards will go beyond the scope of the Guide. Issuers are encouraged to refer to or adopt international ESG reporting standards or guidelines for their relevant industries or sectors.[49] Links to these useful resources can be found on our ESG webpage.

220. We will continue to review the Guide and the CG Code periodically going forward, particularly in the light of any regional or international legislative or regulatory developments in this area. The above comments will be considered in due course.

---

[48] HKEX, HKEX Guidance Letter (HKEX-GL86-16), May 2019.

[49] These include the GRI's Sustainability Reporting Standards, CDP's Climate Change Questionnaire and Water Security Questionnaire, TCFD Recommendations, ISO 26000, the International Organization for Standardization's Guidance on Social Responsibility, and the Corporate Sustainability Assessment for inclusion in the Dow Jones Sustainability Indices.

APPENDIX I: LIST OF RESPONDENTS

Listed companies (30 in total)

1	AIA Group Limited
2	Allied Sustainability and Environmental Consultants Group Limited
3	BOC Hong Kong (Holdings) Limited
4	Cathay Pacific Airways Limited / Swire Pacific Limited / Swire Properties Limited[50]
5	CK Asset Holdings Limited
6	CK Hutchison Holdings Limited
7	CK Life Sciences Int'l (Holdings) Inc.
8	CLP Holdings Limited
9	Hutchison Telecommunications HK Holdings Limited
10	Link REIT
11	Roma Group Limited
12	Sa Sa International Holdings Limited
13	Standard Chartered Plc
14	Wing On Company International Limited
15-30	16 listed companies requested anonymity

Market practitioners (32 in total)

1	AECOM
2	Alaya Consulting Limited / Ascent Partners Group Limited / CKP Sustainability Consultants Limited
3	Arete Capital Asia Limited
4	AVISTA PRO-WIS Risk Advisory Limited
5	BCT Group
6	Brunswick Group
7	Carbon Care Asia
8	CECEP Environmental Consulting Group Limited
9	CHFT Advisory and Appraisal Limited
10	CMA Testing and Certification Laboratories
11	Deloitte Advisory HK Limited
12	Energy-use Strategy Advisors
13	Ernst & Young
14	Freshfields Bruckhaus Deringer
15	KPMG
16	PIE Strategy Limited
17	Plenitude.io Limited
18	PricewaterhouseCoopers
19	Refinitiv Hong Kong Limited

[50] Cathay Pacific Airways Limited's submission is identical to the submissions of Swire Pacific Limited and Swire Properties Limited. Therefore, we count the three submissions as one response.

20 SHINEWING Sustainability Advisory Services Limited
21 Skadden, Arps, Slate, Meagher & Flom
22 Slaughter and May
23 Tricor Services Limited
24 Vigeo Eiris
25 Vivien Teu & Co LLP
26 Zurich Insurance Company
27-32 6 market practitioners requested anonymity

Professional bodies and industry associations (22 in total)

1 ACCA Hong Kong
2 Asia Investor Group on Climate Change
3 Asian Corporate Governance Association
4 CPA Australia
5 Hong Kong Confederation of Trade Unions / Worker Empowerment[51]
6 Hong Kong General Chamber of Commerce
7 Hong Kong Green Finance Association
8 Hong Kong Independent Non-Executive Director Association
9 Hong Kong Institute of Chartered Secretaries
10 Hong Kong Institute of Certified Public Accountants
11 Hong Kong Institute of Directors
12 Hong Kong Institute of Qualified Environmental Professionals Limited
13 Hong Kong Investment Funds Association
14 Hong Kong Professionals and Senior Executives Association
15 Hong Kong Venture Capital and Private Equity Association
16 International Corporate Governance Network
17 The Australian Chamber of Commerce Hong Kong
18 The Canadian Chamber of Commerce in Hong Kong
19 The Chamber of Hong Kong Listed Companies
20 The Hong Kong Society of Financial Analysts
21 The Law Society of Hong Kong
22 1 professional body or industry association requested anonymity

Investment managers (17 in total)

1 Allianz Global Investors
2 AvantFaire Investment Management Limited
3 BlackRock Asset Management North Asia Limited
4 British Columbia Investment Management Corporation
5 Fidelity International
6 Hermes Equity Ownership Services
7 HSBC Global Asset Management (Hong Kong) Limited

[51] Hong Kong Confederation of Trade Unions' submission is identical to that of Worker Empowerment, and the two submissions are therefore counted as one response.

8	Norges Bank Investment Management
9	Oasis Management Company Ltd
10	Robeco
11	State Street Global Advisors Asia Limited
12	Telligent Capital Management Limited
13	USS Investment Management Limited
14-17	4 investment managers requested anonymity

Non-governmental / charitable organisations (18 in total)

1	Business and Human Rights Resource Centre
2	Business Environment Council
3	Carbon Disclosure Project / Climate Disclosure Standards Board
4	Community Business Limited
5	Fair Trade Hong Kong
6	Global Reporting Initiative
7	Global Witness
8	Green Earth
9	Hong Kong Institute of Education for Sustainable Development
10	Liberty Shared
11	Our Hong Kong Foundation
12	Oxfam
13	The 30% Club Hong Kong
14	The Women's Foundation
15	World Green Organisation
16	WWF Hong Kong
17-18	2 non-governmental / charitable organisations requested anonymity

Other entities (9 in total)

1	Community Investment and Inclusion Fund
2	Consumer Council
3	Fuji Xerox (Hong Kong) Limited
4	Hong Kong Financial Services Development Council
5	Principles for Responsible Investment Association
6	Sustainability Accounting Standards Board
7	Sustainable Finance Initiative
8	The Business and Human Rights Network Hong Kong
9	World Institute of Sustainable Development Planners

Individuals (25 in total)

1	Chan Ka Yu
2	Christopher Cheung Wah Fung
3	Dennis Kwok
4	Fiona Nott

5	John Robert Gibson
6	Judy Tsui
7	Kenneth Leung
8	Kingsley Cheng
9	Leung Sze Man
10	Polex Lam
11	Sabita Prakash
12	Vincent Kong
13	Zonta Yung
14-25	12 individuals requested anonymity

Remarks:

1. *If the entire body of the response is identical, word-for-word, with the entire body of another response. It will be recorded as a "duplicate response" and it will not be counted for the purpose of a quantitative and qualitative analysis of the responses.*

2. *The total number of responses is calculated according to the number of submissions received and not the underlying members that they represent.*

APPENDIX II: SUMMARY RESULT OF QUANTITATIVE ANALYSIS

Proposals in the Consultation Paper	Feedback		
	Agree	Disagree	Number of respondents[52]
1. Do you agree with our proposal to amend Main Board Listing Rule 13.91 and GEM Listing Rule 17.103 to shorten the time required to publish an ESG report from three months after the publication of the annual report to within four months for Main Board issuers or three months for GEM issuers from the financial year-end date?	116 (83%)	23 (17%)	139 (91%)
2. Do you agree with our proposal to amend the Listing Rules and the Guide to clarify that issuers are not required to provide printed form of the ESG report to shareholders unless responding to specific requests, but are required to notify shareholders that the ESG report has been published on the Exchange's and the issuer's websites?	134 (99%)	2 (1%)	136 (89%)
3. Do you agree with our proposal to amend the Guide to introduce MDRs?	128 (89%)	16 (11%)	144 (94%)
4. If your response to Question 3 is positive, do you agree with our proposal to introduce an MDR requiring a statement from the board containing the following elements: (a) a disclosure of the board's oversight of ESG issues; (b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and (c) how the board reviews progress made against ESG-related goals and targets?	123 (88%)	17 (12%)	140 (92%)
5. Do you agree with our proposal to set out in a note that the board statement should include information on the issuer's current ESG management approach, strategy, priorities and goals/targets and an explanation of how they relate to the issuer's businesses?	121 (86%)	20 (14%)	141 (92%)

[52] Out of 153 responses. Respondents who did not respond or did not indicate clearly a view to a proposal were excluded.

Proposals in the Consultation Paper	Feedback		
	Agree	Disagree	Number of respondents[52]
6. Do you agree with our proposal to amend the Guide to introduce an MDR requiring disclosure of an explanation on how the issuer has applied the Reporting Principles in the preparation of the ESG report?	117 (85%)	21 (15%)	138 (90%)
7. Do you agree with our proposal to amend the Reporting Principle on "materiality" to make it clear that materiality of ESG issues is to be determined by the board and that the issuer must disclose a description of significant stakeholders identified, the process and results of the issuer's stakeholder engagement (if any), and the criteria for the selection of material ESG factors?	119 (86%)	19 (14%)	138 (90%)
8. Do you agree with our proposal to amend the Reporting Principle on "quantitative" to: (a) require disclosure of information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption (where applicable); and (b) clarify that while KPIs for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?	115 (85%)	20 (15%)	135 (88%)
9. Do you agree with our proposal to amend the Guide to include an MDR requiring an explanation of the ESG report's reporting boundary, disclosing the process used to identify the specific entities or operations that are included in the ESG report?	121 (89%)	15 (11%)	136 (89%)
10. Do you agree with our proposal to introduce a new Aspect A4 requiring: (a) disclosure of policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; and	119 (86%)	20 (14%)	139 (91%)

Proposals in the Consultation Paper	Feedback		
	Agree	Disagree	Number of respondents[52]
(b) a KPI requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them?			
11. Do you agree with our proposal to amend the Environmental KPIs to require disclosure of a description of targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them?	117 (83%)	24 (17%)	141 (92%)
12. Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 GHG emissions?	121 (90%)	14 (10%)	135 (88%)
13. Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to "comply or explain"?	122 (88%)	16 (12%)	138 (90%)
14. Do you agree with our proposal to revise a KPI to clarify "employment types" should include "full- and part-time" staff?	120 (90%)	13 (10%)	133 (87%)
15. Do you agree with our proposal to amend the KPI on fatalities to require disclosure of the number and rate of work-related fatalities occurred in each of the past three years including the reporting year?	115 (86%)	18 (14%)	133 (87%)
16. Do you agree with our proposal to introduce the following new KPIs in respect of supply chain management? (a) Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. (b) Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	116 (84%)	22 (16%)	138 (90%)

Proposals in the Consultation Paper	Feedback		
	Agree	Disagree	Number of respondents[52]
17. Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?	124 (94%)	8 (6%)	132 (86%)
18. Do you agree with the proposal to revise the Guide's wording on independence assurance to state that the issuer may seek independent assurance to strengthen the credibility of ESG information disclosed; and where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report?	119 (86%)	20 (14%)	139 (91%)

Chapter 13

EQUITY SECURITIES

CONTINUING OBLIGATIONS

…

Environmental and Social Matters

13.91 (1) The Environmental, Social and Governance ("ESG") Reporting Guide in Appendix 27 comprises two levels of disclosure obligations: (a) mandatory disclosure requirements; and (b) "comply or explain" provisions~~; and (b) recommended disclosures~~.

(2) For the relevant financial year in their annual reports or in separate ESG reports, issuers must:

(a) disclose the information required under the "Mandatory Disclosure Requirements" in Part B of the ESG Reporting Guide; and

(b) ~~Issuers must~~ state whether they have complied with the "comply or explain" provisions set out in Part C of the ESG Reporting Guide ~~for the relevant financial year in their annual reports or in separate ESG reports~~.

(3) Where the issuer deviates from the "comply or explain" provisions, it must give considered reasons in its ESG report.

~~(4)~~ ~~Issuers are encouraged, but not required, to report on the recommended disclosures of the ESG Reporting Guide.~~

~~(5)~~(4) Issuers must publish their ESG reports on an annual basis and regarding the same period covered in their annual reports. An ESG report may be presented as information in the issuer's annual report or in a separate report. Regardless of the format adopted, the ESG report must be published on the Exchange's website and the issuer's website.

(5) Where the ESG report does not form part of the issuer's annual report:

(a) To the extent permitted under all applicable laws and regulations and the issuer's own constitutional documents, an issuer is not required to provide the ESG report in printed form to its shareholders irrespective of whether such shareholders have elected to receive the issuer's corporate communication electronically or otherwise under rule 2.07A.

(b) The issuer must notify the intended recipient of:

(i) the presence of the ESG report on the website;
(ii) the address of the website;
(iii) the place on the website where it may be accessed; and
(iv) how to access the ESG report.

(c) Notwithstanding the above, the issuer shall promptly provide a shareholder with an ESG report in printed form upon its specific request.

(d) The issuer is encouraged to publish the ESG report at the same time as the publication of the annual report. In any event, the issuer should publish the ESG report as close as possible to, and no later than five months after, the end of the financial year.

~~*Notes:*~~

~~*(1)*~~ ~~*An ESG report may be presented as information in the issuer's annual report, in a separate report, or on the issuer's website. Where not presented in the issuer's annual report, the issuer should publish this information as close as possible to, and in any event no later than three months after, the publication of the issuer's annual report.*~~

~~*(2)*~~ ~~*As regards "Subject Area A. Environmental" of the ESG Reporting Guide, the upgrade of the Key Performance Indicators to "comply or explain" will come into effect for issuers' financial years beginning on or after 1 January 2017.*~~

Appendix 27

Environmental, Social and Governance Reporting Guide

Part A: Introduction

The Guide

1. This Guide comprises two levels of disclosure obligations: (a) mandatory disclosure requirements; and (b) "comply or explain" provisions~~; and (b) recommended disclosures~~.

2. Mandatory disclosure requirements are set out in Part B of this Guide. An issuer must include such information for the period covered by the ESG report.

~~2.~~3. "Comply or explain" provisions are set out in Part C of this Guide. An issuer must report on the "comply or explain" provisions of this Guide. If the issuer does not report on one or more of these provisions, it must provide considered reasons in its ESG report. ~~The issuer is encouraged, but not required, to report on the recommended disclosures of this Guide.~~ For guidance on the "comply or explain" approach, issuers may refer to the "*What is "comply or explain"?*" section of the Corporate Governance Code and Corporate Governance Report ("Corporate Governance Code") in Appendix 14 of the Main Board Listing Rules.

~~3.~~4. (1) An issuer must publish its ~~disclose~~ ESG report~~information~~ on an annual basis and regarding the same period covered in its annual report. An ESG report may be presented as information in the issuer's annual report~~,~~ or in a separate report~~, or on the issuer's website~~. Regardless of the format adopted, the ESG report ~~should~~must be published on the Exchange's website and the issuer's website.

(2) Where the ESG report does not form part of the issuer's annual report:

(a) To the extent permitted under all applicable laws and regulations and the issuer's own constitutional documents, an issuer is not required to provide the ESG report in printed form to its shareholders irrespective of whether such shareholders have elected to receive the issuer's corporate communication electronically or otherwise under rule 2.07A.

(b) The issuer must notify the intended recipient of:

(i) the presence of the ESG report on the website;
(ii) the address of the website;
(iii) the place on the website where it may be accessed; and
(iv) how to access the ESG report.

(c) Notwithstanding the above, the issuer shall promptly provide a shareholder with an ESG report in printed form upon its specific request.

(d) ~~Where not presented in the issuer's annual report, t~~The issuer is encouraged to publish the ESG report at the same time as the publication of the annual report. In any event, the issuer should publish ~~this~~the ESG report~~information~~ as close as possible to, and ~~in any event~~

no later than ~~three~~five months after, ~~the publication of the issuer's annual report~~the end of the financial year.

Overall Approach

~~4.~~5. This Guide is organised into two ESG subject areas ("Subject Areas"): Environmental (Subject Area A) and Social (Subject Area B). Corporate governance is addressed separately in the Corporate Governance Code.

~~5.~~6. Each Subject Area has various aspects ("Aspects"). Each Aspect sets out general disclosures ("General Disclosures") and key performance indicators ("KPIs") for issuers to report on in order to demonstrate how they have performed.

~~6.~~7. In addition to the "comply or explain" matters set out in this Guide, the Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs~~, including recommended disclosures,~~ that reflect the issuer's significant environmental and social impacts; or substantially influence the assessments and decisions of stakeholders. In assessing these matters, the issuer should engage stakeholders on an ongoing basis in order to understand their views and better meet their expectations.

~~7.~~8. This Guide is not comprehensive and the issuer may refer to existing international ESG reporting guidance for its relevant industry or sector. The issuer may adopt international ESG reporting guidance so long as it includes comparable disclosure provisions to the "comply or explain" provisions set out in this Guide.~~ The issuer may also consider obtaining assurance on its ESG report.~~

9. The issuer may seek independent assurance to strengthen the credibility of the ESG information disclosed. Where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for the assurance given clearly in the ESG report.

~~***ESG strategy and reporting***~~

~~8.~~10. The board has overall responsibility for an issuer's ESG strategy and reporting.

~~9. In line with the Corporate Governance Code, the board is responsible for evaluating and determining the issuer's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Management should provide a confirmation to the board on the effectiveness of these systems.~~

~~10. The ESG report should state the issuer's ESG management approach, strategy, priorities and objectives and explain how they relate to its business. It would be useful to discuss the issuer's management, measurement and monitoring system employed to implement its ESG strategy. An ESG report should also state which entities in the issuer's group and/or which operations have been included in the report. If there is a change in the scope, the issuer should explain the difference and reason for the change.~~

Reporting Principles

11. The following Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented. An issuer should follow these Reporting Principles in the preparation of an ESG report:

(1) **Materiality:** ~~is t~~The threshold at which ESG issues determined by the board are ~~become~~ sufficiently important to investors and other stakeholders that they should be reported.

(2) **Quantitative:** KPIs in respect of historical data need to be measurable. The issuer should set targets (which may be actual numerical figures or directional, forward-looking statements) to reduce a particular impact.~~Targets can be set to reduce a particular impact.~~ In this way the effectiveness of ESG policies and management systems can be evaluated and validated. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate.

(3) **Balance:** The ESG report should provide an unbiased picture of the issuer's performance. The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader.

(4) **Consistency:** The issuer should use consistent methodologies to allow for meaningful comparisons of ESG data over time.~~The issuer should disclose in the ESG report any changes to the methods used or any other relevant factors affecting a meaningful comparison.~~

Complementing ESG discussions in the Business Review Section of the Directors' Report

12. Pursuant to paragraph 28(2)(d) of Appendix 16 of the Main Board Listing Rules, an issuer's directors' report for a financial year must contain a business review in accordance with Schedule 5 to the Companies Ordinance. The business review must include, to the extent necessary for an understanding of the development, performance or position of the issuer's business:

(i) a discussion of the issuer's environmental policies and performance;

(ii) a discussion of the issuer's compliance with the relevant laws and regulations that have a significant impact on the issuer; and

(iii) an account of the issuer's key relationships with its employees, customers and suppliers and others that have a significant impact on the issuer and on which the issuer's success depends.

This Guide should complement the content requirements of the directors' report, as it calls for issuers to disclose information in respect of specific ESG areas.

~~*Note: As regards "Subject Area A. Environmental", the upgrade of the KPIs to "comply or explain" will come into effect for issuers' financial years beginning on or after 1 January 2017.*~~

Part B: Mandatory Disclosure Requirements

Governance Structure

13. A statement from the board containing the following elements:

(i) a disclosure of the board's oversight of ESG issues;

(ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and

(iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.

Reporting Principles

14. A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG report:

Materiality: The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.

Quantitative: Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed.

Consistency: The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.

Reporting Boundary

15. A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.

Part C: "Comply or explain" Provisions

<table>
<tr><th colspan="4">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><th></th><th colspan="2">~~"Comply or explain" Provisions~~</th><th>~~Recommended Disclosures~~</th></tr>
<tr><td colspan="4">A. Environmental</td></tr>
<tr><td rowspan="3">Aspect A1: Emissions</td><td colspan="2">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Note: Air emissions include NOx, SOx, 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.</td><td rowspan="3"></td></tr>
<tr><td>KPI A1.1</td><td>The types of emissions and respective emissions data.</td></tr>
<tr><td>KPI A1.2</td><td><u>Direct (Scope 1) and energy indirect (Scope 2)</u> <u>g</u>~~G~~reenhouse gas emissions ~~in total~~ (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).</td></tr>
</table>

Subject Areas, Aspects, General Disclosures and KPIs			
	~~"Comply or explain" Provisions~~		**~~Recommended Disclosures~~**
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
	KPI A1.5	Description of ~~measures to mitigate emissions~~emission target(s) set and ~~results achieved~~steps taken to achieve them.	
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction ~~initiatives~~target(s) set and ~~results achieved~~steps taken to achieve them.	
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. *Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.*		
	KPI A2.1	Direct and/or indirect 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).	

Subject Areas, Aspects, General Disclosures and KPIs			
	~~"Comply or explain" Provisions~~		**~~Recommended Disclosures~~**
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	
	KPI A2.3	Description of energy use efficiency ~~initiatives~~target(s) set and ~~results achieved~~steps taken to achieve them.	
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency ~~initiatives~~target(s) set and ~~results achieved~~steps taken to achieve them.	
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impacts on the environment and natural resources.		
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	
Aspect A4: Climate Change	General Disclosure Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.		
	KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	

Subject Areas, Aspects, General Disclosures and KPIs				
	~~“Comply or explain” Provisions~~		**~~Recommended Disclosures~~**	
B. Social				
Employment and Labour Practices				
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.			
			~~KPI B1.1~~	~~Total workforce by gender, employment type, age group and geographical region.~~
			~~KPI B1.2~~	~~Employee turnover rate by gender, age group and geographical region.~~
	KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.		
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.		

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><th></th><th colspan="2">~~“Comply or explain” Provisions~~</th><th colspan="2">~~Recommended Disclosures~~</th></tr>
<tr><td rowspan="7">**Aspect B2: Health and Safety**</td><td colspan="2" rowspan="4">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to providing a safe working environment and protecting employees from occupational hazards.</td><td></td><td></td></tr>
<tr><td>~~KPI B2.1~~</td><td>~~Number and rate of work-related fatalities.~~</td></tr>
<tr><td>~~KPI B2.2~~</td><td>~~Lost days due to work injury.~~</td></tr>
<tr><td>~~KPI B2.3~~</td><td>~~Description of occupational health and safety measures adopted, how they are implemented and monitored.~~</td></tr>
<tr><td>KPI B2.1</td><td>Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.</td><td rowspan="3"></td><td rowspan="3"></td></tr>
<tr><td>KPI B2.2</td><td>Lost days due to work injury.</td></tr>
<tr><td>KPI B2.3</td><td>Description of occupational health and safety measures adopted, and how they are implemented and monitored.</td></tr>
</table>

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><th></th><th colspan="2"><s>“Comply or explain” Provisions</s></th><th colspan="2"><s>Recommended Disclosures</s></th></tr>
<tr><td rowspan="5">Aspect B3: Development and Training</td><td colspan="2" rowspan="3">General Disclosure

Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.

Note: Training refers to vocational training. It may include internal and external courses paid by the employer.</td><td></td><td></td></tr>
<tr><td><s>KPI B3.1</s></td><td><s>The percentage of employees trained by gender and employee category (e.g. senior management, middle management).</s></td></tr>
<tr><td><s>KPI B3.2</s></td><td><s>The average training hours completed per employee by gender and employee category.</s></td></tr>
<tr><td><u>KPI B3.1</u></td><td><u>The percentage of employees trained by gender and employee category (e.g. senior management, middle management).</u></td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td><u>KPI B3.2</u></td><td><u>The average training hours completed per employee by gender and employee category.</u></td></tr>
</table>

Subject Areas, Aspects, General Disclosures and KPIs				
	~~“Comply or explain” Provisions~~		~~Recommended Disclosures~~	
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.			
			~~KPI B4.1~~	~~Description of measures to review employment practices to avoid child and forced labour.~~
			~~KPI B4.2~~	~~Description of steps taken to eliminate such practices when discovered.~~
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.		
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.		

Subject Areas, Aspects, General Disclosures and KPIs				
	~~"Comply or explain" Provisions~~		~~Recommended Disclosures~~	
Operating Practices				
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.			
			~~KPI B5.1~~	~~Number of suppliers by geographical region.~~
			~~KPI B5.2~~	~~Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.~~
	KPI B5.1	Number of suppliers by geographical region.		
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.		
	KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.		
	KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.		

Subject Areas, Aspects, General Disclosures and KPIs				
	~~"Comply or explain" Provisions~~		**~~Recommended Disclosures~~**	
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.			
			~~KPI B6.1~~	~~Percentage of total products sold or shipped subject to recalls for safety and health reasons.~~
			~~KPI B6.2~~	~~Number of products and service related complaints received and how they are dealt with.~~
			~~KPI B6.3~~	~~Description of practices relating to observing and protecting intellectual property rights.~~
			~~KPI B6.4~~	~~Description of quality assurance process and recall procedures.~~
			~~KPI B6.5~~	~~Description of consumer data protection and privacy policies, how they are implemented and monitored.~~
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.		
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.		
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.		
	KPI B6.4	Description of quality assurance process and recall procedures.		

	KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.		

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><td></td><td colspan="2">~~“Comply or explain” Provisions~~</td><td colspan="2">~~Recommended Disclosures~~</td></tr>
<tr><td rowspan="6">Aspect B7:
Anti-corruption</td><td colspan="2" rowspan="3">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to bribery, extortion, fraud and money laundering.</td><td></td><td></td></tr>
<tr><td>~~KPI B7.1~~</td><td>~~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.~~</td></tr>
<tr><td>~~KPI B7.2~~</td><td>~~Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.~~</td></tr>
<tr><td><u>KPI B7.1</u></td><td><u>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.</u></td><td rowspan="3"></td><td rowspan="3"></td></tr>
<tr><td><u>KPI B7.2</u></td><td><u>Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.</u></td></tr>
<tr><td><u>KPI B7.3</u></td><td><u>Description of anti-corruption training provided to directors and staff.</u></td></tr>
</table>

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><th></th><th colspan="2">~~“Comply or explain” Provisions~~</th><th colspan="2">~~Recommended Disclosures~~</th></tr>
<tr><td colspan="5">Community</td></tr>
<tr><td rowspan="5">Aspect B8: Community Investment</td><td colspan="2" rowspan="3">General Disclosure

Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities’ interests.</td><td></td><td></td></tr>
<tr><td>~~KPI B8.1~~</td><td>~~Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).~~</td></tr>
<tr><td>~~KPI B8.2~~</td><td>~~Resources contributed (e.g. money or time) to the focus area.~~</td></tr>
<tr><td>KPI B8.1</td><td>Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>KPI B8.2</td><td>Resources contributed (e.g. money or time) to the focus area.</td></tr>
</table>

Chapter 17

EQUITY SECURITIES

CONTINUING OBLIGATIONS

…

Environmental and Social Matters

17.103 (1) The Environmental, Social and Governance ("ESG") Reporting Guide in Appendix 20 comprises two levels of disclosure obligations: (a) mandatory disclosure requirements; and (b) "comply or explain" provisions~~; and (b) recommended disclosures~~.

(2) For the relevant financial year in their annual reports or in separate ESG reports, issuers must:

(a) disclose the information required under the "Mandatory Disclosure Requirements" in Part B of the ESG Reporting Guide; and

(b) ~~Issuers must~~ state whether they have complied with the "comply or explain" provisions set out in Part C of the ESG Reporting Guide ~~for the relevant financial year in their annual reports or in separate ESG reports~~.

(3) Where the issuer deviates from the "comply or explain" provisions, it must give considered reasons in its ESG report.

~~(4) Issuers are encouraged, but not required, to report on the recommended disclosures of the ESG Reporting Guide.~~

~~(5)~~(4) Issuers must publish their ESG reports on an annual basis and regarding the same period covered in their annual reports. An ESG report may be presented as information in the issuer's annual report or in a separate report. Regardless of the format adopted, the ESG report must be published on the Exchange's website and the issuer's website.

(5) Where the ESG report does not form part of the issuer's annual report:

(a) To the extent permitted under all applicable laws and regulations and the issuer's own constitutional documents, an issuer is not required to provide the ESG report in printed form to its shareholders irrespective of whether such shareholders have elected to receive the issuer's corporate communication electronically or otherwise under rule 16.04A.

(b) The issuer must notify the intended recipient of:

   (i) the presence of the ESG report on the website;
   (ii) the address of the website;
   (iii) the place on the website where it may be accessed; and
   (iv) how to access the ESG report.

(c) Notwithstanding the above, the issuer shall promptly provide a shareholder with an ESG report in printed form upon its specific request.

(d) The issuer is encouraged to publish the ESG report at the same time as the publication of the annual report. In any event, the issuer should publish the ESG report as close as possible to, and no later than five months after, the end of the financial year.

~~*Notes:*~~

~~*(1)*~~ ~~*An ESG report may be presented as information in the issuer's annual report, in a separate report, or on the issuer's website. Where not presented in the issuer's annual report, the issuer should publish this information as close as possible to, and in any event no later than three months after, the publication of the issuer's annual report.*~~

~~*(2)*~~ ~~*As regards "Subject Area A. Environmental" of the ESG Reporting Guide, the upgrade of the Key Performance Indicators to "comply or explain" will come into effect for issuers' financial years beginning on or after 1 January 2017.*~~

Appendix 20

Environmental, Social and Governance Reporting Guide

Part A: Introduction

The Guide

1. This Guide comprises two levels of disclosure obligations: (a) mandatory disclosure requirements; and (b) “comply or explain” provisions~~; and (b) recommended disclosures~~.

2. Mandatory disclosure requirements are set out in Part B of this Guide. An issuer must include such information for the period covered by the ESG report.

~~2.~~3. “Comply or explain” provisions are set out in Part C of this Guide. An issuer must report on the “comply or explain” provisions of this Guide. If the issuer does not report on one or more of these provisions, it must provide considered reasons in its ESG report. ~~The issuer is encouraged, but not required, to report on the recommended disclosures of this Guide.~~ For guidance on the “comply or explain” approach, issuers may refer to the “*What is “comply or explain”?*” section of the Corporate Governance Code and Corporate Governance Report (“Corporate Governance Code”) in Appendix 15 of the GEM Listing Rules.

~~3.~~4. (1) An issuer must publish its~~disclose~~ ESG report~~information~~ on an annual basis and regarding the same period covered in its annual report. An ESG report may be presented as information in the issuer’s annual report~~,~~ or in a separate report~~, or on the issuer’s website~~. Regardless of the format adopted, the ESG report ~~should~~must be published on the Exchange’s website and the issuer’s website.

(2) Where the ESG report does not form part of the issuer’s annual report:

(a) To the extent permitted under all applicable laws and regulations and the issuer’s own constitutional documents, an issuer is not required to provide the ESG report in printed form to its shareholders irrespective of whether such shareholders have elected to receive the issuer’s corporate communication electronically or otherwise under rule 16.04A.

(b) The issuer must notify the intended recipient of:

(i) the presence of the ESG report on the website;

(ii) the address of the website;

(iii) the place on the website where it may be accessed; and

(iv) how to access the ESG report.

(c) Notwithstanding the above, the issuer shall promptly provide a shareholder with an ESG report in printed form upon its specific request.

(d) ~~Where not presented in the issuer’s annual report, t~~The issuer is encouraged to publish the ESG report at the same time as the publication of the annual report. In any event, the issuer should publish ~~this~~the ESG report~~information~~ as close as possible to, and ~~in any event~~

no later than ~~three~~five months after, ~~the publication of the issuer's annual report~~the end of the financial year.

Overall Approach

~~4.~~5. This Guide is organised into two ESG subject areas ("Subject Areas"): Environmental (Subject Area A) and Social (Subject Area B). Corporate governance is addressed separately in the Corporate Governance Code.

~~5.~~6. Each Subject Area has various aspects ("Aspects"). Each Aspect sets out general disclosures ("General Disclosures") and key performance indicators ("KPIs") for issuers to report on in order to demonstrate how they have performed.

~~6.~~7. In addition to the "comply or explain" matters set out in this Guide, the Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs~~, including recommended disclosures,~~ that reflect the issuer's significant environmental and social impacts; or substantially influence the assessments and decisions of stakeholders. In assessing these matters, the issuer should engage stakeholders on an ongoing basis in order to understand their views and better meet their expectations.

~~7.~~8. This Guide is not comprehensive and the issuer may refer to existing international ESG reporting guidance for its relevant industry or sector. The issuer may adopt international ESG reporting guidance so long as it includes comparable disclosure provisions to the "comply or explain" provisions set out in this Guide.~~ The issuer may also consider obtaining assurance on its ESG report.~~

9. The issuer may seek independent assurance to strengthen the credibility of the ESG information disclosed. Where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for the assurance given clearly in the ESG report.

~~***ESG strategy and reporting***~~

~~8.~~10. The board has overall responsibility for an issuer's ESG strategy and reporting.

~~9. In line with the Corporate Governance Code, the board is responsible for evaluating and determining the issuer's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Management should provide a confirmation to the board on the effectiveness of these systems.~~

~~10. The ESG report should state the issuer's ESG management approach, strategy, priorities and objectives and explain how they relate to its business. It would be useful to discuss the issuer's management, measurement and monitoring system employed to implement its ESG strategy. An ESG report should also state which entities in the issuer's group and/or which operations have been included in the report. If there is a change in the scope, the issuer should explain the difference and reason for the change.~~

Reporting Principles

11. The following Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented. An issuer should follow these Reporting Principles in the preparation of an ESG report:

(1) **Materiality:** ~~is t~~The threshold at which ESG issues ~~become~~determined by the board are sufficiently important to investors and other stakeholders that they should be reported.

(2) **Quantitative:** KPIs in respect of historical data need to be measurable. The issuer should set targets (which may be actual numerical figures or directional, forward-looking statements) to reduce a particular impact. ~~Targets can be set to reduce a particular impact.~~ In this way the effectiveness of ESG policies and management systems can be evaluated and validated. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate.

(3) **Balance:** The ESG report should provide an unbiased picture of the issuer's performance. The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader.

(4) **Consistency:** The issuer should use consistent methodologies to allow for meaningful comparisons of ESG data over time. ~~The issuer should disclose in the ESG report any changes to the methods used or any other relevant factors affecting a meaningful comparison.~~

Complementing ESG discussions in the Business Review Section of the Directors' Report

12. Pursuant to rule 18.07A(2)(d), an issuer's directors' report for a financial year must contain a business review in accordance with Schedule 5 to the Companies Ordinance. The business review must include, to the extent necessary for an understanding of the development, performance or position of the issuer's business:

(i) a discussion of the issuer's environmental policies and performance;

(ii) a discussion of the issuer's compliance with the relevant laws and regulations that have a significant impact on the issuer; and

(iii) an account of the issuer's key relationships with its employees, customers and suppliers and others that have a significant impact on the issuer and on which the issuer's success depends.

This Guide should complement the content requirements of the directors' report, as it calls for issuers to disclose information in respect of specific ESG areas.

~~*Note: As regards "Subject Area A. Environmental", the upgrade of the KPIs to "comply or explain" will come into effect for issuers' financial years beginning on or after 1 January 2017.*~~

Part B: Mandatory Disclosure Requirements

Governance Structure

13. A statement from the board containing the following elements:

(i) a disclosure of the board's oversight of ESG issues;

(ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and

(iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.

Reporting Principles

14. A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG report:

Materiality: The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.

Quantitative: Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed.

Consistency: The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.

Reporting Boundary

15. A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.

Part C: "Comply or explain" Provisions

Subject Areas, Aspects, General Disclosures and KPIs			
	~~"Comply or explain" Provisions~~		~~Recommended Disclosures~~
A. Environmental			
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. *Note: Air emissions include NOx, SOx, 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.*		
	KPI A1.1	The types of emissions and respective emissions data.	
	KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) g~~G~~reenhouse gas emissions ~~in total~~ (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	

Subject Areas, Aspects, General Disclosures and KPIs			
	~~“Comply or explain” Provisions~~		~~Recommended Disclosures~~
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
	KPI A1.5	Description of ~~measures to mitigate emissions~~emission target(s) set and ~~results achieved~~steps taken to achieve them.	
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction ~~initiatives~~target(s) set and ~~results achieved~~steps taken to achieve them.	
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. *Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.*		
	KPI A2.1	Direct and/or indirect 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).	

<table>
<tr><th colspan="4">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><th></th><th colspan="2">~~“Comply or explain” Provisions~~</th><th>~~Recommended Disclosures~~</th></tr>
<tr><td></td><td>KPI A2.2</td><td>Water consumption in total and intensity (e.g. per unit of production volume, per facility).</td><td></td></tr>
<tr><td></td><td>KPI A2.3</td><td>Description of energy use efficiency ~~initiatives~~target(s) set and ~~results achieved~~steps taken to achieve them.</td><td></td></tr>
<tr><td></td><td>KPI A2.4</td><td>Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency ~~initiatives~~target(s) set and ~~results achieved~~steps taken to achieve them.</td><td></td></tr>
<tr><td></td><td>KPI A2.5</td><td>Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.</td><td></td></tr>
<tr><td rowspan="2">Aspect A3:
The Environment and Natural Resources</td><td colspan="2">General Disclosure

Policies on minimising the issuer’s significant impacts on the environment and natural resources.</td><td rowspan="2"></td></tr>
<tr><td>KPI A3.1</td><td>Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.</td></tr>
<tr><td rowspan="2">Aspect A4:
Climate Change</td><td colspan="2">General Disclosure

Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.</td><td rowspan="2"></td></tr>
<tr><td>KPI A4.1</td><td>Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.</td></tr>
</table>

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><td></td><td colspan="2">~~“Comply or explain” Provisions~~</td><td colspan="2">~~Recommended Disclosures~~</td></tr>
<tr><td colspan="5">B. Social</td></tr>
<tr><td colspan="5">Employment and Labour Practices</td></tr>
<tr><td rowspan="5">Aspect B1: Employment</td><td colspan="2" rowspan="3">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</td><td></td><td></td></tr>
<tr><td>~~KPI B1.1~~</td><td>~~Total workforce by gender, employment type, age group and geographical region.~~</td></tr>
<tr><td>~~KPI B1.2~~</td><td>~~Employee turnover rate by gender, age group and geographical region.~~</td></tr>
<tr><td>KPI B1.1</td><td>Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>KPI B1.2</td><td>Employee turnover rate by gender, age group and geographical region.</td></tr>
</table>

Subject Areas, Aspects, General Disclosures and KPIs				
	~~"Comply or explain" Provisions~~		**~~Recommended Disclosures~~**	
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.			
			~~KPI B2.1~~	~~Number and rate of work-related fatalities.~~
			~~KPI B2.2~~	~~Lost days due to work injury.~~
			~~KPI B2.3~~	~~Description of occupational health and safety measures adopted, how they are implemented and monitored.~~
	KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.		
	KPI B2.2	Lost days due to work injury.		
	KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.		

Subject Areas, Aspects, General Disclosures and KPIs				
	~~“Comply or explain” Provisions~~		~~Recommended Disclosures~~	
Aspect B3: Development and Training	General Disclosure Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities. *Note: Training refers to vocational training. It may include internal and external courses paid by the employer.*			
			~~KPI B3.1~~	~~The percentage of employees trained by gender and employee category (e.g. senior management, middle management).~~
			~~KPI B3.2~~	~~The average training hours completed per employee by gender and employee category.~~
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).		
	KPI B3.2	The average training hours completed per employee by gender and employee category.		

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><td></td><td colspan="2"><s>“Comply or explain” Provisions</s></td><td colspan="2"><s>Recommended Disclosures</s></td></tr>
<tr><td rowspan="5">Aspect B4: Labour Standards</td><td colspan="2" rowspan="3">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to preventing child and forced labour.</td><td></td><td></td></tr>
<tr><td><s>KPI B4.1</s></td><td><s>Description of measures to review employment practices to avoid child and forced labour.</s></td></tr>
<tr><td><s>KPI B4.2</s></td><td><s>Description of steps taken to eliminate such practices when discovered.</s></td></tr>
<tr><td><u>KPI B4.1</u></td><td><u>Description of measures to review employment practices to avoid child and forced labour.</u></td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td><u>KPI B4.2</u></td><td><u>Description of steps taken to eliminate such practices when discovered.</u></td></tr>
</table>

Subject Areas, Aspects, General Disclosures and KPIs				
	~~"Comply or explain" Provisions~~		**~~Recommended Disclosures~~**	
Operating Practices				
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.			
			~~KPI B5.1~~	~~Number of suppliers by geographical region.~~
			~~KPI B5.2~~	~~Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.~~
	KPI B5.1	Number of suppliers by geographical region.		
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.		
	KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.		
	KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.		

Subject Areas, Aspects, General Disclosures and KPIs				
	~~"Comply or explain" Provisions~~		~~Recommended Disclosures~~	
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.			
			~~KPI B6.1~~	~~Percentage of total products sold or shipped subject to recalls for safety and health reasons.~~
			~~KPI B6.2~~	~~Number of products and service related complaints received and how they are dealt with.~~
			~~KPI B6.3~~	~~Description of practices relating to observing and protecting intellectual property rights.~~
			~~KPI B6.4~~	~~Description of quality assurance process and recall procedures.~~
			~~KPI B6.5~~	~~Description of consumer data protection and privacy policies, how they are implemented and monitored.~~
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.		
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.		
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.		
	KPI B6.4	Description of quality assurance process and recall procedures.		

	KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.		

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><th></th><th colspan="2">~~"Comply or explain" Provisions~~</th><th colspan="2">~~Recommended Disclosures~~</th></tr>
<tr><td rowspan="6">Aspect B7:
Anti-corruption</td><td colspan="2" rowspan="3">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to bribery, extortion, fraud and money laundering.</td><td></td><td></td></tr>
<tr><td>~~KPI B7.1~~</td><td>~~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.~~</td></tr>
<tr><td>~~KPI B7.2~~</td><td>~~Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.~~</td></tr>
<tr><td>KPI B7.1</td><td>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.</td><td rowspan="3"></td><td rowspan="3"></td></tr>
<tr><td>KPI B7.2</td><td>Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.</td></tr>
<tr><td>KPI B7.3</td><td>Description of anti-corruption training provided to directors and staff.</td></tr>
</table>

<table>
<tr><th colspan="5">Subject Areas, Aspects, General Disclosures and KPIs</th></tr>
<tr><td></td><td colspan="2">~~“Comply or explain” Provisions~~</td><td colspan="2">~~Recommended Disclosures~~</td></tr>
<tr><td colspan="5">**Community**</td></tr>
<tr><td rowspan="5">**Aspect B8: Community Investment**</td><td colspan="2" rowspan="3">General Disclosure

Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities’ interests.</td><td></td><td></td></tr>
<tr><td>~~KPI B8.1~~</td><td>~~Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).~~</td></tr>
<tr><td>~~KPI B8.2~~</td><td>~~Resources contributed (e.g. money or time) to the focus area.~~</td></tr>
<tr><td>KPI B8.1</td><td>Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>KPI B8.2</td><td>Resources contributed (e.g. money or time) to the focus area.</td></tr>
</table>

Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square, 8 Connaught Place,
Central, Hong Kong

info@hkex.com.hk
電話：+852 2522 1122　傳真：+852 2295 3106
hkexgroup.com | hkex.com.hk