

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf>.

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

Timeframe for Publication of ESG Reports

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 environmental, social and governance (“**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?

Yes

No

Please give reasons for your views.

<p>We generally agree that by shortening the time of publication of the ESG report improves its relevance and should provide a better picture of the issuers in their ESG aspects. However, we would also raise the concern that this amendment allows less time for verification of data, especially companies with many operating locations. The environmental KPIs are especially prone to this shortening of time because some parameters depend on external sources, and thus the most updated parameters might not be available because the external sources have not yet published such information.</p>

Printed Form of ESG Reports

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?

Yes

No

Please give reasons for your views.

One major concern of the ESG reporting is on environment, as such it is an improvement to migrate communication channel from printed to paperless one. We suggest HKEX to encourage all issuers to publish their ESG reports separately in electronic format, so that the bulk of the printed annual reports could be reduced.

Introducing Mandatory Disclosure Requirements

General

3. Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements (“MDR”)?

Yes

No

Please give reasons for your views.

We agree that some aspects of the ESG report is essential so that all issuers must disclose and discuss. In doing so, ESG reporting would be more valuable to investors and general public and raise the issuers' awareness of the importance of ESG reporting.

Governance Structure

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?

Yes

No

Please give reasons for your views.

We strongly support that the ESG reporting should start from the board, as this not just streamline the reporting process, but also reminds the boards that they are ultimately responsible for management of the ESG aspects of their operations and strategy. In our past and current practice, we always suggest our clients (i.e. the issuers) to provide such statements and disclosures, although this is not currently required.

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?

Yes

No

Please give reasons for your views.

We are aware that many issuers, some being our past and current clients, might treat ESG reporting as a mere compliance requirement. We believe that by requiring the boards to produce a note and how the ESG factors are related to their businesses, they would reflect on the relationship between their businesses and the society as well as the environment, so that ESG aspects of their businesses become more meaningful to them and they would then, among others, factor ESG considerations into their strategy, priorities, and goals, which in turn would probably improve the ESG performances of their businesses.

Reporting Principles

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?

Yes

No

Please give reasons for your views.

We have typically include this section for our clients, because such disclosure enables the reader to understand how the various sections and the coverage of the reports answers or responses to the Reporting Principles set out, such that they could more easily evaluate the completeness and depth of reports prepared by us against the reports prepared by other parties.

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?

Yes

No

Please give reasons for your views.

We believe such disclosure is important for the overall reporting strategy and essential information for the readers; we have typically include such disclosure when preparing reports for our clients.

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 key performance indicators (“KPIs”) for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

Yes

No

Please give reasons for your views.

Such disclosure enables general public and investors to more easily compare the results across different issuers, and also across time for the same issuer.

Reporting Boundary

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?

Yes

No

Please give reasons for your views.

We believe that it is important for the issuer to specify, explain and justify the reporting boundary, as this is crucial for the reader to understand the scope of the report and also facilitate comparing results across issuers.

Introducing Aspect on Climate Change and Revising the Environmental KPIs

Climate Change

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
 - (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?

Yes

No

Please give reasons for your views.

In our experience, many issuers are not aware of the effects of climate change that may have on their businesses, or they may be aware of such issues as they have experienced them, but they could solve it relatively simply in the past, and thus are not giving due notice on the severity of the issue in the future. By requiring the issuers to reporting on this new Aspect, they will be required to reflect deeper on the issues. As adviser on ESG matters to issuers, we could also take this opportunity to conduct a more thorough analysis on climate-related issues for our clients, so that they would keep these issues in minds and take them into consideration when formulating long-term strategy.

Targets

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?

Yes

No

Please give reasons for your views.

We believe that such disclosure is fundamental as it helps issuers to be more aware of how they could reduce emissions and energy/water use and waste generation, which would be beneficial to both the issuers and the society in the long run.

GHG Emissions

12. Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas (“**GHG**”) emissions?

Yes

No

Please give reasons for your views.

We believe that such disclosure is essential, as GHG emissions have far-reaching consequences, thus a central part of environmental reporting.

Upgrading the Disclosure Obligation of the Social KPIs

13. Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to “comply or explain”?

Yes

No

Please give reasons for your views.

We believe that, as social aspects is a fundamental part of ESG reporting, it must not be merely voluntary in nature, as issuers might perceive that it is unimportant. We have always encourage our clients to include reporting the social KPIs.

Revising the Social KPIs

Employment Types

14. Do you agree with our proposal to revise a KPI to clarify “employment types” should include “full- and part-time” staff?

Yes

No

Please give reasons for your views.

We believe that it is beneficial for the reader to see that full- and part-time staff are distinguished as they usually have fundamentally different roles and/or effect on the issuers' operation and strategy.

Rate of Fatalities

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?

Yes

No

Please give reasons for your views.

We believe such disclosure is important for the social aspect of the issuers. We usually suggest such disclosure should be included.

Supply Chain Management

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.

Yes

No

Please give reasons for your views.

We recognize that the production of the goods or services delivered by an issuer must include the issuer itself and all upstream suppliers; thus, in order to reflect the ESG aspects of the product or services delivered by the issuer, due attention from the issuer to the upstream suppliers must be in order. We typically suggest such practices and respective disclosures to our clients, although they are not currently required.

Anti-corruption

17. Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

Yes

No

Please give reasons for your views.

We believe that merely stating whether anti-corruption training is provided without some general description is insufficient to the reader for understanding or evaluate such anti-corruption trainings. We always suggest to our clients that some details such as the topics, types and locations of the attendees (such as role capacity), and the schedules/frequencies of such trainings be disclosed, so that the reader could glean more insights from the report.

Encouraging Independent Assurance

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?

Yes

No

Please give reasons for your views.

We generally believe that ESG reporting, like financial reporting, should be audited by independent parties, so as to improve the credibility of the reports. However, where independent assurance is obtained, we suggest HKEX to provide a more comprehensive guideline on describing the level, scope and processes adopted. Some issuers may also have concerns on how to determine the level and scopes of such assurance, as cost and time are always the price on more thorough and complete assurance. More clear guidelines from HKEX in these aspects would encourage more issuers to seek independent assurance, while also provide better guidelines to readers on comparing issuers with different levels/scopes of assurance, or no such assurance at all.

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