

## 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.

We acknowledge the necessity of timely publishing of the ESG reports; however, investors and other stakeholders are expecting a high quality ESG report rather than a boilerplate report lacking meaningful information. In order to present investors and other stakeholders with a holistic and comprehensive view of the issuer’s ESG performance, we believe that issuers may need more time on preparing the ESG reports in particular in view of the proposed upgrades in the ESG guide. Therefore, the current timeframe namely three months after publishing the Annual report should remain unchanged whilst allowing issuers to acclimatise to the new requirements, and at the same time to encourage issuers to obtain independent assurance.

### 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.

We disagree that issuers are required to provide printed form of the ESG report to shareholders notwithstanding they have specific requests. The proposal is a move of setback and against its original intent of promoting environmental friendly objective. In view of the fact that the separate ESG report is not required to print so the ESG report shall not form part of the Annual report. If so, in a practical sense, the issuers do not need to consider on entertaining any such stakeholder's' request. HKEX shall take it clear to issuers to publish the separate ESG report in order to minimize the amount of avoidable printing. Therefore, issuers can reduce the ecological footprint and the greenhouse gas emissions generated by paper consumption, printing, and transportation.

We also suggest requiring issuers to add notification of the publishing date of the separate ESG report in their Results Announcement.

## 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 with the proposal if MDR is restricted to certain areas, as referred to in our replies to Q.6, Q.7 and Q.8, which can enhance the quality of ESG reports. Investors would also be able to better compare the quality of ESG reports from different companies. However, not every general disclosure or key performance indicators (KPIs) are applicable to all issuers. From the perspective of cost-effectiveness, introducing MDR to those immaterial disclosures will only add burden to small and medium companies and other listed companies whose businesses have low sensitivity in social or environmental impacts. Therefore, the MDR should be restricted to certain areas said above so that the Guide can continue to maintain the flexibility for issuers to the level, amount and contents of disclosure based on their own company situation, strategic needs and cost-benefit analysis.

### 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 do not object issuers to include such disclosure in the ESG report but this needs not to be made mandatory. The responsibility of the board now is overloaded by a wide range of responsibilities such as risk management and internal control responsibilities. We understand that the board has the responsibility to oversee ESG strategy, that can bring long-term value to issuers. However, the question is whether the board has relevant experience and expertise to understand ESG risks and opportunities and to oversee how the management handling the ESG issues.

On the other hand, we are proposing the establishment of the ESG committee, with a delegation of powers from the board to help boards understand and shape the company's ESG strategies and operations to minimize the impacts on the environment and social aspects and risks faced by the issuers in the end.

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 do not object issuers to include such disclosure in the ESG report but this needs not to be made mandatory. However, the ESG management approach, strategy, priorities and goals/targets are changing and affected by many factors such as the business nature, growth and changes.

### 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 agree with this proposal given the ESG reports in past had been done according to the Reporting Principles which align with international reporting guidance. The explanations would enable investors and other stakeholders to appraise how the issuers manage ESG issues. We suggest HKEX should set out a clear guideline on the disclosure of the Reporting Principle so as to help issuers fulfill such MDR requirements.

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.

Materiality is key as to the extent and contents of the ESG report. A good quality ESG report contains the truly material ESG matters faced by the issuer's business instead of the full disclosures based on a box-ticking approach. It is also important that the issuer explains why and how the ESG report is prepared based on its materiality assessment process.

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.

KPIs need to be measurable and comparable to be useful and meaningful. To facilitate these, it is important to maintain consistency in the methodology in data collection and calculation as well as the assumptions. We sometimes recognise the sensitivity of disclosing quantitative targets in a public domain. Therefore, we suggest that the issuers should endeavor to disclose actual numerical figures where possible, or otherwise use directional statements in relation to the targets set.

#### 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.

By stating which entities in the issuer’s group and/or which operations have been included in the report allows investors to appreciate the scope of the ESG report and enhances the transparency of the ESG report.

## 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.

After the Paris Agreement entered into force on 4 November 2016, climate change and its potential terminal effects have been a global focus. We welcome the proposal and encourage issuers to report on climate change and its impact on businesses. This will help issuers understand and prepare for and manage these emerging risks and expectations from suppliers, customers and regulators. Also, this helps investors and other stakeholders reveal the business opportunities alongside the risks associated with Climate Change of the issuers.

### 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 endorse to the proposal to require disclosure of target set regarding emissions, energy use and other resources on Climate Change so as to enhance market transparency and encourage issuers to work seriously in transiting to the low-carbon economy at large. Working against the targets also brings positive impacts to the issuers, such as gaining in efficiency leads to cost savings and bolstering reputation.



## 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.

According to the GHG Protocol, a company's GHG emissions are classified into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. The GHG emissions should be reported according to a consistent, harmonized approach. At least Scopes 1 and 2 emissions which directly managed by the issuers should be reported in order to maintain the consistency of disclosures.

## **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.

Nowadays, Social KPIs are more important in the global market, especially for the labour-intensive industries. Therefore, it is fully justified for all Social KPIs to upgrade to 'comply or explain' obligation and aligned with the structure of leading international guidelines.

## 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 welcome the proposal and even suggest to clarify the "employment types" to permanent worker, contracted worker, and temporary worker instead of full-time and part-time staff.

### 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.

It provides a better picture to investors and other stakeholders with a track record of the work-related fatalities.

### 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.

It allows investors and other stakeholders to assess the risks associated with the issuer's supply chain.

### 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.

It helps issuers create a healthy corporate culture and ethics within the entity.

## 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 support this proposal and even suggest the mandatory assurance of the ESG reports which can strengthen the credibility of ESG information disclosed. Nowadays, more and more management, investors, rating agencies and other analysts are using ESG information in conjunction with financial information to help them make decisions. Hence, the ESG report should free from material error and the ESG information/data disclosed should be reliable.

End -