

# How to prepare an ESG Report?

## Introduction

This document contains practical steps, tools ([Toolkit](#), **Appendix 1**) and reporting guidance ([Reporting Guidance on Environmental KPIs](#), **Appendix 2**) aimed at helping issuers to start ESG reporting under the ESG Reporting Guide (Appendix 27 to the Main Board Listing Rules and Appendix 20 to the GEM Listing Rules) (“ESG Guide” or “Guide”).

For financial years commencing on or after 1 January 2016, issuers must state in their annual report or a separate ESG report whether they have complied with the General Disclosures (which are subject to “comply or explain”) under each Aspect of the revised ESG Guide. This means that issuers must either disclose in their annual report or a separate ESG report covering their 2016 financial year the information called for under the General Disclosures of the Guide, or explain why they have not done so.

The disclosure obligation of the KPIs under “Subject Area A. Environmental” of the revised ESG Guide will be upgraded to “comply or explain” for issuers’ financial years commencing on or after 1 January 2017. This means that issuers will have to disclose in their annual report or a separate ESG report covering their 2017 financial year the information called for under the Environmental KPIs of the Guide, or explain why they have not done so.

### “Comply or Explain”

When a General Disclosure or a KPI is subject to “comply or explain”, the issuer should decide whether it will comply (by disclosing the information) or explain (why it is not disclosing that information). To reach a decision on whether to “comply” or “explain” in respect of a provision, it may be useful for the issuer to go through the materiality assessment exercise set out in the [Toolkit](#) (see Step 5 below).

It is not mandatory for issuers to follow the steps and procedures set out in this document and its appendices ([Toolkit](#) and [Reporting Guidance on Environmental KPIs](#)), as they are for general reference and guidance only. Each issuer is unique and, as such, should develop its own steps and procedures for ESG reporting in view of its specific circumstances.

## Steps for ESG Reporting

Prior to beginning the process of ESG reporting, the board should consider and determine the issuer's ESG strategy, risks, management approach, priorities and objectives. The board should set out the strategic goals of the issuer's ESG report and prepare the ESG report with reference to those goals.

### ✧ **Step 1 ESG working group**

Establish an ESG working group (that reports to the board), comprising members of senior management and other members of staff who have sufficient ESG knowledge to conduct internal and external materiality assessments (see **Step 5**) and to write the ESG report.

The ESG working group should have clear terms of reference that set out the powers delegated to it by the board, the authority to carry out various tasks including internal and external materiality assessments, the scope of its work, and the cost and resource commitment from the issuer.

### ✧ **Step 2 Understanding the requirements of the ESG Guide**

The ESG working group should first understand the reporting requirements of the ESG Guide, the issuer's ESG risks determined by the board and the board's ESG strategy.

The ESG working group needs to consider whether to disclose the information required under the "comply or explain" provisions of the ESG Guide with reference to the results of the internal and external materiality assessments (see **Step 5**).

### ✧ **Step 3 Reporting boundary**

Determine the scope of the ESG report (i.e. what parts of the business the issuer intends to report on) based on the ESG risks determined by the board that the ESG report aims to address. This could include geographical scope (e.g. operations in Hong Kong, but not those in Mainland China or elsewhere) or business scope (e.g. only covering certain aspects of the business, but not others).

An ESG report should 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 from previous years, the ESG report should explain the difference and reasons for the change.

#### ✧ **Step 4 Stakeholder engagement**

Stakeholder engagement is the process by which an issuer involves parties who may be affected by the decisions it makes or can influence the implementation of its decisions.

First, develop a list of key internal and external stakeholders, and engage them to identify their main concerns and expectations. The ESG working group may consider undertaking the following:

- 4.1 Generate a full and complete list of stakeholders by consulting various departments within the issuer (e.g. corporate communications/public relations, human resources, investor relations, sales and marketing, procurement, legal, government relations, etc.).

Depending on the issuer's business, industry and other factors, external stakeholders may include but are not limited to:

- Investors/shareholders/members
- Customers and potential customers
- Suppliers/business partners
- Employees (e.g. in the context of the human resources department, employees would be their external stakeholders)
- Government and regulators
- NGOs and lobby groups
- Local communities
- Competitors/peers
- Experts and specialists.

- 4.2 Reduce the list of stakeholders into a workable size (as the ESG working group may not have the resources to contact each and every stakeholder).

[Toolkit – Stakeholder Influence – Dependency Matrix](#) helps to work out a list of key stakeholders (i.e. those in the top right-hand quadrant).

- 4.3 Decide on the most effective engagement methods, which may include inviting comments/responses in writing, via telephone, meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires or online engagement mechanisms. Preparation may include invitation letters, written materials, presentations and agendas for engagement meetings.
- 4.4 Engage with the key stakeholders identified in 4.2 through the engagement methods determined in 4.3.

[Toolkit – Stakeholder Profile](#) template and [Toolkit – Stakeholder Engagement Plan](#) help with the stakeholder engagement process.

- 4.5 Following stakeholder engagement, the issuer should create an action plan to address the most important and relevant stakeholder concerns.

[Toolkit – Post Stakeholder Engagement Action Plan](#)

#### ✧ **Step 5 Materiality assessment**

In deciding whether to disclose the information under a “comply or explain” provision, the ESG working group should take into account the information’s materiality, i.e. its importance and relevance to the issuer’s business and operations.

The [Toolkit – Materiality and Relevance](#) table includes all the General Disclosures and KPIs in the ESG Guide. The ESG working group may conduct the internal and external materiality assessments using the [Toolkit – Materiality and Relevance](#) table to assess and determine the materiality of each provision of the Guide by each selected stakeholder with reference to the issuer’s business and operations. It may be that not all General Disclosures and KPIs need to be assessed for materiality by using the [Toolkit](#). If a General Disclosure or KPI is obviously material to an issuer’s business (e.g. an airline should find disclosing data on greenhouse gas emissions to be material), then it may not be necessary to use the [Toolkit](#) to assess the provision’s materiality.

Internal materiality assessments should not be outsourced and ideally should be conducted by senior managers and/or other key employees. This will result in the

issuer's own assessment of what the material issues are. We encourage issuers not to outsource the internal materiality assessment, as members of staff have a better understanding of the issuer's structure, business and operations, and as a result may be better able to identify the material issues. External materiality assessments should be done with the key stakeholders identified in **Step 4**.

Having obtained a list of material issues from the issuer (internally) and from key stakeholders (externally), the ESG working group can merge these two sets of data by using the [Toolkit – Materiality Matrix](#). At least the General Disclosures and KPIs that fall within the top right-hand quadrant should be covered by the ESG report.

If a “comply or explain” provision is found to be material (i.e. if it falls within the top right-hand quadrant of the [Toolkit – Materiality Matrix](#)), the issuer should disclose the required information. To do so, the ESG working group will need to ensure the issuer has systems in place to gather the necessary information and to collect the relevant data. If the issuer lacks adequate data in the relevant areas, the ESG working group should develop an internal system to rectify these gaps.

If the ESG working group decides not to disclose the information under a “comply or explain” provision, the issuer must give considered reasons for this decision in the ESG report.

If a “comply or explain” provision is found to be immaterial (i.e. if it falls within the bottom left-hand quadrant of the [Toolkit – Materiality Matrix](#)) following the materiality assessment, the issuer has the option to explain its non-disclosure on that basis in its ESG report.

#### ✧ **Step 6 Information collection for General Disclosures and data collection for KPIs**

The ESG working group is now ready to start collecting information for General Disclosures and data for the KPIs that the issuer intends to report on.

For General Disclosures, ask questions such as: “Do we have any existing policies in the specific area? If not, is it necessary to develop such policies? Who in the company is responsible for determining its policies and who should be drafting them?”

For KPIs, ask the following questions: “What information or data do we need to report

for this KPI? Are there any gaps in the data and, if so, what do we need to do to generate the required data?” The ESG working group may need to work with other members of staff to compile data from diverse sources, or to help develop a process by which such data could be collected in future. The ESG working group may find further guidance on identifying information gaps in the worksheets [Toolkit – Identifying Information Gaps](#).

[Reporting Guidance on Environmental KPIs](#) (Appendix 2) contains useful data collection methodologies and practical guidance on how to collect the information and calculate the data called for under each of the KPIs in “Subject Area A. Environmental” of the ESG Guide.

#### ✧ **Step 7 Writing the ESG report**

Finally, the ESG working group can start writing the ESG report.

The ESG report should disclose the information called for under the provisions of the Guide and on which the ESG working group has determined to report; provide information that investors and other stakeholders would like to know; and be written in a way that is balanced and easily understood. The ESG report should contain certain key messages that the issuer aims to convey to investors and other stakeholders.

The text of the report should be simple, concise and to the point, and should provide explanations of data that is presented in graphs or charts. The ESG report may also include pictures that emphasise or clarify points made in the text, and may include short case studies to highlight how the issuer has implemented ESG policies or practices.

# ESG Reporting Flowchart

## Set up an ESG group

- Understand ESG reporting requirements, ESG risks and board's ESG strategy
- Set reporting boundary

## Stakeholder engagement

- Compile a workable list of stakeholders
- Engage with key stakeholders using the most effective methods
- Create action plan to address relevant stakeholder concerns

- *Toolkit – Stakeholder Influence – Dependency Matrix*
- *Toolkit – Stakeholder Profile*
- *Toolkit – Stakeholder Engagement Plan*
- *Toolkit – Post Stakeholder Engagement Action Plan*

## Materiality assessment

- Conduct internal and external materiality assessments to decide whether to disclose certain information

- *Toolkit – Materiality and Relevance (to be completed for each stakeholder)*
- *Toolkit – Materiality Matrix (overall)*

## Disclosure

| Material  | Not material  |  |
|---|---|--|
| <p>“Comply or explain” provisions</p> <ul style="list-style-type: none"> <li>• Either report or give considered reasons for deciding not to report</li> </ul> | <p>“Comply or explain” provisions</p> <ul style="list-style-type: none"> <li>• If decide not to report, could consider using materiality/relevance as an explanation</li> </ul> | <ul style="list-style-type: none"> <li>• <i>Toolkit – Identify Information Gaps</i></li> </ul> |
| <p>Recommended disclosures</p> <ul style="list-style-type: none"> <li>• Consider reporting, but if decide not to report, no need to give reasons</li> </ul>   | <p>Recommended disclosures</p> <ul style="list-style-type: none"> <li>• No need to report or give reasons for deciding not to report</li> </ul>                                 |  |