

CONSULTATION CONCLUSIONS ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

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EXECUTIVE SUMMARY

1. This paper presents the results of the consultation on the proposed Environmental, Social and Governance Reporting Guide.
2. We received 106 submissions from institutional investors, issuers, business associations, practitioners, non-governmental/non-profit organisations, individuals and unlisted companies.
3. Respondents welcomed the introduction of the Guide. Having considered the responses, we decided to implement the Guide which will be appended to the Listing Rules, subject to amendments set out in this paper. The revised Listing Rule amendments form Appendix II.
4. The Guide will be a recommended practice. It will apply to issuers with financial year ending after 31 December 2012. Subject to further future consultation, we plan to raise the obligation level to “comply or explain” by 2015.
5. The Guide is for issuers with limited familiarity with environmental, social and governance (“ESG”) issues but which are looking for a starting point to begin work on ESG reporting. We strongly encourage issuers with the capability to adopt international guidelines instead.
6. Some respondents were concerned about the costs and administrative burden of reporting. We do not expect an issuer to report on all its operations and recommended disclosures from the start. An issuer with resource constraints could start reporting on a few KPIs that are material and relevant to it, and include only its major operations.
7. There were comments that the Guide should refer to international guidelines such as the Global Reporting Initiative’s Sustainability Reporting Guide. We note that no one international guideline has emerged as the globally accepted international guideline. Moreover, issuers that are just beginning work in this area may find the Global Reporting Initiative’s Sustainability Reporting Guide daunting.
8. However, we recognise that external references will help issuers start reporting. Currently, the HKEx website provides various resources for issuers: <http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/index.htm>. In addition, we will set out useful references to the Guide in the Frequently Asked Questions to be posted on HKEx website. We also set out the references in Appendix III of this paper.
9. Some respondents objected to the inclusion of quantitative key performance indicators (“KPIs”) in the Guide. Disclosure of quantitative KPIs is in line with international practice. Also, what is not measured is not monitored and managed. Hence, we consider reporting on KPIs fundamental to improving ESG performance for issuers.
10. Some respondents suggested including gender information on workplace related disclosures and information on executive and board composition, specifically: (a) percentage of women at board level and senior management/executive committee level; (b) ethnicity and nationality of all board directors; and (c) age profile of board

directors. We are considering the issue as a separate exercise, so these matters are not included in this Guide.

11. We understand that there are gaps to fill between the recommendations in the Guide and the actual task of reporting. To fill the gaps between the Guide and actual reporting, we are considering ways forward to work with the ESG community (which may include investors, practitioners and issuers) to enhance market confidence. We hope to announce the details in due course.
12. We will also support programmes that raise awareness and build capacity for issuers to report.

CHAPTER 1: BACKGROUND

13. On 9 December 2011, the Exchange published a Consultation Paper on Environmental, Social and Governance Reporting Guide (“CP” or “Consultation Paper”). The Consultation Paper sought comments on the proposed Environmental, Social and Governance Reporting Guide (the “Guide”) for issuers.
14. Before the public consultation, we met with various stakeholders, including issuers and investors, for initial comments on the draft Guide.
15. HKEx also sponsored five free half-day seminars and 10 free full-day workshops on ESG reporting for issuers between May and July 2011 based on the draft Guide to raise awareness and help equip issuers with tools for reporting. The seminars and workshops were conducted by external consultants specialising in ESG reporting. 823 participants from 498 issuers attended the seminars and 518 participants from 348 issuers attended the workshops. The seminars and workshops were well received by participants.
16. On 9 April 2012, the consultation period ended after four months. We received 106 submissions from institutional investors, issuers, business associations, practitioners, non-governmental/non-profit organisations (“NGO”), individuals and unlisted companies. A list of respondents is in Appendix IV. The full text of all submissions is available on the HKEx website at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp201112r.htm>.
17. Among the 106 responses, 20 responses (19%) were from issuers. This represents approximately 1.3% of Hong Kong issuers¹. We also received responses from business associations including the Chamber of Hong Kong Listed Companies, the Hong Kong General Chamber of Commerce, the Australian Chamber of Commerce, the British Chamber of Commerce and the Canadian Chamber of Commerce.
18. While the response rate from issuers was low, the attendance and feedback from the ESG seminars and workshops in 2011 indicates that the business community is aware of the increasing importance of this area.
19. Nine institutional investor respondents representing over US\$2.2 trillion assets under management (“AUM”)² responded to this consultation. Although it is unclear what percentage of the AUM is invested in the Hong Kong market³, the number of responses indicates that institutional investors are keen to see more ESG information from Hong Kong issuers.
20. The majority (52%) of the responses came from NGOs, individuals and unlisted companies. Their responses raised two main issues: obligation level and diversity. See paragraphs 27 to 34 and paragraphs 48 to 50 for our responses.

¹ There were 1,516 companies listed on Main Board and GEM Board as at 30 April 2012.

² According to information provided by the respondents or information disclosed on their websites.

³ One investor noted that it invests in over 100 Hong Kong issuers.

21. This paper should be read in conjunction with the Consultation Paper, which is posted on the HKEx website. Listing Rules references in this paper are to the Main Board Listing Rules. Our responses also apply to the corresponding GEM Listing Rules.

CHAPTER 2: KEY COMMENTS AND RESPONSES

22. Respondents welcomed the introduction of the Guide. We received useful comments on how the Guide could be improved. We thank the respondents for sharing their views with us.
23. We note the demands from the investing community and NGOs for more information. However, we understand that some issuers do not think ESG issues relate to their core business and may be reluctant to report due to the added costs and administrative burden.
24. We note the growing importance of ESG performance and reporting globally, and this trend will impact on how issuers do business and report. We consider that companies listed on the Exchange should be aware of these developments. We do not expect an issuer to report on all its operations and recommended disclosures from the start. An issuer with resource constraints could start reporting on a few KPIs that are material and relevant to it, and cover only its major operations.
25. The Guide is for issuers with limited familiarity with ESG issues but which are looking for a starting point to begin work on ESG reporting. We strongly encourage issuers with the capability to adopt international guidelines instead.
26. We set out respondents' key comments and our responses below. Respondents' other comments and our responses to those comments are in Appendix I.

Obligation level

27. We asked whether the ESG Guide should be a recommended best practice appended to the Listing Rules. (*Consultation question 1*)

Comments received

28. The majority of the respondents agreed that the Guide be a recommended practice. Some respondents⁴ encouraged the Exchange to raise the level of obligation to “comply or explain” in the future and to set out a specific timeframe in this regard.
29. A group of individuals and unlisted companies representing about 15% of the respondents considered that the Guide should be mandatory or at least have a “comply or explain” level of obligation.

Our response

30. As mentioned in the Consultation Paper, we may consider raising the level of obligation of the Guide to “comply or explain” in the future. In this regard, we will conduct periodic surveys to evaluate the extent to which issuers are reporting on ESG.

⁴ This comment was mainly raised by institutional investor and NGO respondents.

31. We understand that many issuers do not understand ESG issues and are not ready to report yet. Requiring issuers to do so will only result in a check-list mentality. So we do not consider that the Guide should have a level of obligation of “comply or explain” at this stage.
32. We agree with respondents’ comment to set a timeframe for raising the obligation level to “comply or explain”. We consider that this will allow issuers to start focusing on and planning to report. Subject to further future consultation, we plan to raise the level of obligation of some recommended disclosures to “comply or explain” by 2015.
33. To prepare for the consultation, we plan to conduct our first surveys on issuers’ financial reports to be published in 2014.

Conclusion

34. We will maintain that the Guide be introduced as a recommended practice appended to the Listing Rules with a view to raise the level of obligation of some recommended disclosures to “comply or explain” by 2015 subject to consultation.

Level of detail and KPIs disclosure

Comments received

35. Some respondents⁵ considered the Guide overly prescriptive. They considered that some key performance indicators (“KPIs”) are not meaningful or may discourage issuers to report.
36. Some respondents⁶ disagreed with the disclosure of KPIs as they are not objective measures of ESG performance and some KPIs will encourage unproductive criticisms of issuers by media and special interest groups. In addition, the cost of collecting the data exceeds the benefits.

Our response

37. Although the current Listing Rules⁷ already recommend issuers to disclose information regarding “business risks, environmental policies, policies and performance relating to community, social, ethical and reputation issues, key relationships with employees, customers, suppliers and others”, few issuers are reporting⁸. Investors have also indicated to us that it is difficult to find relevant ESG information from Hong Kong issuers.
38. As a respondent⁹ pointed out, at this stage, even high-level signposts would help companies to focus on the task of disclosure. We consider more guidance is needed to help issuers to focus on ESG issues that investors and their stakeholders may be interested in.

⁵ This comment was raised by practitioner and business association respondents.

⁶ This comment was raised by business association respondents.

⁷ See paragraph 52 of Appendix 16 to Main Board Listing Rules and Rule 18.83 of GEM Rules.

⁸ See paragraphs 51 to 54 of the CP for various studies.

⁹ See Carbon Disclosure Project’s response.

39. Disclosure of quantitative KPIs is in line with international practice. It helps readers understand an issuer's ESG performance over time. In addition, what is not measured is not monitored and managed. So we consider reporting on KPIs is fundamental to improving ESG performance for issuers.
40. KPIs are not intended to embarrass issuers. Investors recognise that no company is perfect and an ESG report that only presents good news would not be credible. A balanced report will also give an idea about the ability of the management team to understand and identify risks.
41. We understand that issuers may be concerned about costs and administrative burden. We do not expect an issuer to report on all its operations and recommended disclosures from the start. An issuer with resource constraints could start reporting on a few KPIs that are material and relevant to it, and cover only its major operations.

Conclusion

42. We consider that KPIs are useful information and in line with international practice. We will maintain the KPIs in the Guide.

References to international guidelines

Comments received

43. Some respondents¹⁰ suggested making references to the Global Reporting Initiative's Sustainability Reporting Guidelines ("GRI") in the Guide or aligning the Guide's KPIs with GRI indicators as much as possible. Some respondents suggested that the Guide should refer to or align with disclosure guidance under the Carbon Disclosure Project, Greenhouse Gas Protocol and RepuTex questionnaire¹¹. They consider that:
 - (a) it would add administrative burden to issuers where there are inconsistencies between KPIs and the other reporting guidelines; and
 - (b) alignment with GRI would give further guidance to issuers on how to start reporting.

Our response

44. The Listing Rules set out rules and regulations for Hong Kong issuers. It would be inappropriate to simply refer to external guidelines and standards that we have no control over and which have not yet emerged as the generally accepted guideline. According to CorporateRegister.com, an online data base of ESG reports, just over 40% of all reports profiled on it follow GRI to some degree. Some of the world's leading reporting countries are those where reports are most reluctant to adopt GRI¹². Moreover, issuers that are just beginning work in this area may find GRI daunting.

¹⁰ This comment was mainly raised by some practitioner and issuer respondents.

¹¹ This questionnaire is completed for the purpose of Corporate Sustainability Rating Assessment, which forms the basis for selection into the Hang Seng Sustainability Index.

¹² CorporateRegister.com, 2012 Global Winners & Reporting Trends, April 2012.

45. We have referred to various guidelines/standards when formulating the Guide. The recommended disclosures in the proposed Guide have been fine-tuned based on stakeholder consultation comments and seminar feedback to adapt to local market circumstances. While the recommended disclosures are not exactly the same as some reporting guidelines, they guide issuers to focus on issues that investors and their stakeholders may be interested in and serve as a step towards adopting international practice.
46. However, we recognise that external references will help issuers start reporting. Currently, the HKEx website provides various resources for issuers: <http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/index.htm>. In addition, we will set out useful references to the Guide in the Frequently Asked Questions to be posted on the HKEx website. We also set out the references in Appendix III of this paper.

Conclusion

47. We will not refer to external references in the Guide. We will set out useful references to the Guide in the Frequently Asked Questions to be posted on the HKEx website.

Diversity

48. Some respondents suggested including gender information on workplace related disclosures and information on executive and board composition, specifically: (1) percentage of women at board level and senior management/executive committee level; (2) ethnicity and nationality of all board directors; and (3) age profile of board directors.

Our response

49. We note the growing importance of this issue and are considering it as a separate exercise.

Conclusion

50. We will not add disclosures related to workplace diversity at this stage. This is being considered as a separate exercise.

Assurances

51. We asked if we should recommend external assurance for issuers that report on ESG performance. (*Consultation question 64*)

Comments received

52. The views were diverse on whether we should recommend issuers to seek external assurance. The majority of the issuer and business association respondents considered that we should not recommend issuers to seek external assurance while a large majority of the investor and private practitioner respondents considered that we should.

53. One respondent considered that an issuer’s internal audit may also conduct assurance for the issuer. Another respondent considered that although the Exchange may not necessarily need to encourage external assurance, the Guide should not leave out this aspect. The respondent suggested that the Guide should mention that an issuer could consider seeking external assurance.

Our response

54. We agree that as a recommended practice, the Guide should not leave out the assurance aspect.

Conclusion

55. We will mention in the Guide that issuers may consider offering assurance on their ESG reports.

Tone

Comments received

56. There were comments that the Guide could use a stronger tone¹³. For example, issuers should be “encouraged to” (rather than “may”) prioritise ESG subject areas and aspects, consult or engage stakeholders, explain how the KPIs are calculated and disclose the scope of reporting, etc.

Our responses

57. The tone of the Guide is deliberately permissive. We consider that ESG practices and disclosures involve a change in mindset, which suggests that suasion may be better than a prescriptive approach. So we do not prefer normative language at this stage.
58. That said, we consider that it would be sensible to encourage issuers to:
- (a) state in the ESG report which entities in the group and/or which operations have been included for the report as it could be misleading to readers if the reporting scope is unclear;
 - (b) continue to report once they start reporting;
 - (c) explain how the KPIs are calculated so that readers can interpret the KPIs; and
 - (d) prioritise ESG subject areas, aspects and KPIs to show that issuers have carefully considered their ESG strategies and are not using the Guide simply as a check-list.

Conclusion

59. We will maintain the overall tone of the Guide except as mentioned in paragraph 58.

¹³ This comment was mainly raised by investor and NGO respondents.

CHAPTER 3: NEXT STEPS

60. We understand that there are gaps to fill between the recommendations in the Guide and the actual task of reporting. To fill the gaps between the Guide and actual reporting, we propose the following next steps:

Effective date and timeframe for “comply or explain”

61. There will be a transition period for the implementation of the Guide. The Guide will apply to issuers with financial year ending after 31 December 2012.
62. Subject to further future consultation, we plan to raise the level of obligation of some recommended disclosures to “comply or explain” by 2015.

Work with the ESG community

63. We are considering ways forward to work with the ESG community (which may include investors, practitioners and issuers) to enhance market confidence. We hope to announce the details in due course.

Continue capacity building

64. We will support programmes that raise awareness and build capacity for issuers to report.

APPENDIX I: OTHER COMMENTS AND RESPONSES

65. We set out respondents' other comments and our responses below.

Introduction section of the Guide

(paragraphs 80 to 83 of the Consultation Paper)

66. We sought comments on the proposed Main Board Listing Rule 13.91 and paragraph 53 of Appendix 16/ GEM Listing Rules 17.103 and 18.84 in Appendix I of the Consultation Paper. (*Consultation question 2*)

67. We sought comments on the Introduction section of the Guide. (*Consultation question 3*)

Comments received

68. The majority of the respondents agreed with the proposed Listing Rule and the Introduction section.

69. Some respondents¹⁴ commented that the ESG information should cover the same period as the financial information. It would be easier for readers to understand issuers' financial and non-financial performance as a whole and draw connections between them. In addition, it may be easier for issuers to move to integrated reporting in the future.

Our response

70. The proposed Listing Rule and Introduction section of the Guide suggested that where the ESG information is included in a separate report, an issuer is free to report on any period.

71. We agree with the respondents' comment that the ESG information covering the same period as financial information of issuers would facilitate analysis of an issuer's performance as a whole. We will encourage issuers to disclose ESG information covering the same period as financial information.

Conclusion

72. We will amend the Listing Rule and paragraph 4 of the Introduction section.

General Approach section of the Guide

(paragraphs 84 to 87 of the Consultation Paper)

73. We sought comments on the guidance under the General Approach section of the Guide. (*Consultation question 4*)

¹⁴ This comment was mainly raised by investor and practitioner respondents.

Comments received

74. A large majority¹⁵ of the respondents agreed with the General Approach section. Some respondents considered that:
- (a) it would be useful to clarify how to determine materiality¹⁶;
 - (b) the ESG Guide could clarify that stakeholder engagement should be carried out periodically as their views could change¹⁷.

Our response

75. The 2011 ESG workshops gave guidance on how to determine materiality. A practical guide on determining materiality is available on the HKEx website: <http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/Documents/toolkit.xls>.
76. We agree that stakeholder engagement should be carried out periodically as their interests and views change over time.

Conclusion

77. We will clarify in the Guide that stakeholder engagement should be carried out periodically.

Reporting Guidance section of the Guide

78. We sought comments on the Reporting Guidance section of the Guide. (*Consultation question 5*)

Comments received

79. A large majority¹⁸ of the respondents agreed with the Reporting Guidance section. Some respondents¹⁹ considered that the Guide should give clearer definitions. They considered that the lack of objective calculations may result in the data not being comparable between different companies.

Our response

80. We did not define the KPIs in the Guide. Instead, we asked an issuer to explain how the KPIs are calculated.
81. We do not want the Guide to be too complex, which would defeat our aim to have a Guide that is simple and easy-to-follow. However, given that most issuers are new to this area, we recognise that more guidance will help issuers start reporting.

¹⁵ Most investor and issuer/business association respondents supported the General Approach section.

¹⁶ This comment was mainly raised by business association, NGO and individual respondents.

¹⁷ This comment was mainly raised by NGO and issuer respondents.

¹⁸ Most investors and issuer/business association respondents agreed to this section.

¹⁹ This comment was raised by practitioner, business association and NGO respondents.

82. Currently, the HKEx website provides various resources for issuers: <http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/index.htm>. In addition, we will set out useful references to the Guide in the Frequently Asked Questions to be posted on the HKEx website. We also set out the references in Appendix III of this paper.

Conclusion

83. The Guide will state that issuers are encouraged to explain how the KPIs²⁰ are calculated. We will set out useful references to the Guide in the Frequently Asked Questions to be posted on the HKEx website.

Key ESG Subject Areas, Aspects for each ESG Area, General disclosures and KPIs

84. We categorised respondents' comments into comments that sought to clarify, add to or remove the recommended disclosures. There were also drafting comments.
85. In considering the comments, we strike a balance between investors and public demand for ESG information and issuers' readiness and capability to report. We use the following principles in considering whether the comments should be adopted:
- (a) *clarifications*: we adopt those that we consider will clarify the scope of disclosures and help issuers to report.
 - (b) *additions*: we note that there are merits in some of these suggestions. However, since they have not been the subject of public consultation, we will not adopt these comments unless they were widely supported and would not add burdens to issuers. For those suggestions that are not adopted in this Guide, we will consider them for the next consultation.
 - (c) *removals*: we have referred to international guidelines when formulating the Guide. It has been fine-tuned based on stakeholder consultation comments and seminar feedback. In addition, an issuer may report on more or less than the recommended disclosures. The key is to report on what is relevant and material. Accordingly, we will only remove a recommended disclosure if it goes beyond acceptable practices²¹, which are reflected in international guidelines, or if the majority of the respondents oppose the disclosure.
 - (e) *drafting*: we adopt those that are appropriate.

²⁰ Please also see our response in paragraph 58.

²¹ Under Rule 2.03 of the Main Board Listing Rules, the Exchange Listing Rules reflect currently acceptable standards in the market place and are designed to ensure that investors have and can maintain confidence in the market.

Key ESG Subject Areas and Aspects for each ESG Area

(paragraphs 92 - 93 of the Consultation Paper)

86. We sought comments on the following ESG areas: Workplace quality, Environmental protection, Operating practices and Community involvement. (*Consultation question 6*)
87. We sought comments on the following aspects. (*Consultation question 7*)

Areas and aspects	
A. Workplace quality	
Aspect A1	Working conditions
Aspect A2	Health and safety
Aspect A3	Development and training
Aspect A4	Labour standards
B. Environmental protection	
Aspect B1	Emissions
Aspect B2	Use of resources
Aspect B3	The environment and natural resources
C. Operating practices	
Aspect C1	Supply chain management
Aspect C2	Product responsibility
Aspect C3	Anti-corruption
D. Community involvement	
Aspect D1	Community investment

Comments received

88. The majority of the respondents supported the ESG areas. There were diverse comments on each of the aspects.
89. Some respondents considered that the Guide should be named the ES Guide as there is no “G” (governance) element in it.
90. There were comments that “Operating practices” should not be included as the information could be addressed elsewhere in corporate reporting.

Our response

91. As mentioned in the Consultation Paper, the Guide also covers compliance with regulations and standards of various ESG aspects, which are governance issues. We will retain the current title of the Guide.

92. We note that the recommended disclosures under “Operating practices” are not uncommon ESG topics, although different names may be used.

Conclusion

93. We will retain the current title of the Guide. We will not remove the recommended disclosures under the “Operating practices” from the Guide.

Aspect A1 Working conditions

94. We sought comments on the following disclosure for Aspect A1: Working conditions. (*Consultation questions 8 to 10*)

General disclosure	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare.
KPI A1.1	Total workforce by employment type, age group and geographical region.
KPI A1.2	Employee turnover rate by age group and geographical region.

95. We asked if there are additional KPIs for Aspect A1. (*Consultation question 11*)

Comments received

96. The majority of the respondents agreed with the recommended disclosure and KPIs.

Additions

97. Some respondents suggested adding:
- (a) turnover by employment type to KPI A1.2 to align with the total workforce KPI²²;
 - (b) compensation paid for overtime and measures to review overtime of employees²³;
 - (c) gender information to the KPIs²⁴;

²² The comment was raised by investor (4), practitioner (1) and NGO (2) respondents.

²³ This comments was raised by investor (4) and NGO (1) respondents.

²⁴ This comment was raised by all categories of respondents including investor, issuer/business association, practitioner, NGO and 25 individual and unlisted company respondents.

- (d) equal opportunity, flexible work arrangements, maternity and paternity benefits to general disclosure. They also suggested adding information on “processes to monitor and address” and “highest level of management responsibility”²⁵; and
- (e) information on remuneration levels for male and female employees and information on executive and board composition, including (1) percentage of women at board level and senior management level; (2) ethnicity and nationality of all board directors; and (3) age profile of board directors²⁶.

Removals

98. Some respondents suggested removing:
- (a) age from KPI A1.1 as age could be a sensitive issue or even have legal restriction in some jurisdictions²⁷; and
 - (b) the recommended disclosures under this aspect as they are not meaningful²⁸.

Our response

Additions

99. Respondents did not give a substantive rationale for inclusions of 97(a) and (b). We also note that the Guide recommends disclosure of policies on compensation, work hours and rest periods, which may cover the suggested disclosure under 97(b). So we do not propose adopting the additions at this stage. However, we recognise that these suggestions may have merit and we will consider them further for the next consultation.
100. We note the comments on gender and board diversity. We are considering these issues as a separate exercise.
101. With respect to adding the term “equal opportunity”, a respondent commented that companies in Hong Kong may not understand the term “diversity” but understand the term “equal opportunity” as the equal opportunity Ordinances²⁹ came into existences in 1996/1997. We agree and consider that adding the term “equal opportunity” will clarify what diversity refers to.

Removals

102. We understand that age may be a sensitive issue. An issuer may choose not to report if there is any legal restriction. It could explain in its report the reason for not reporting.

²⁵ These comments were mainly raised by NGO and 25 individual and unlisted company respondents.

²⁶ Same as above.

²⁷ This comment was raised by issuer (5) and business association (1) respondents.

²⁸ This comment was raised by a business association (1) and investor (1) respondents.

²⁹ They include Sex Discrimination Ordinance, Family Status Ordinance, Race Discrimination Ordinance and Disability Discrimination Ordinance.

103. The disclosure of total workforce is important as the size of workforce indicates the potential impact on an issuer created by labour issues. Retention of workforce is considered an asset for continuity and future development. We will not remove these recommended disclosures.

Conclusion

104. We will clarify the General Disclosure by including “equal opportunity”.

Aspect A2 Health and safety

105. We sought comments on the following disclosure for Aspect A2: Health and safety. (*Consultation questions 12 to 15*)

General disclosure	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.
KPI A2.1	Fatality number and rate.
KPI A2.2	Lost days due to work injury.
KPI A2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.

106. We asked if there are additional KPIs for Aspect A2. (*Consultation question 16*)

Comments received

107. A large majority³⁰ of the respondents supported the recommended disclosures.

Clarification

108. There were comments that KPI A2.1 should clarify that the number of fatalities relates to work-related fatalities only.

Additions

109. Some respondents suggested adding:

- (a) number of fatalities of contractors³¹; and

³⁰ We received overwhelming support from investor and issuer/business association respondents.

³¹ This comment was mainly raised by investor (4) and NGO (1) respondents.

- (b) information on causes of accidents³².

Removal

110. Some respondents suggested removing the KPIs as they are unnecessary or carry a negative implication and may discourage issuers to report³³.

Drafting

111. There was a drafting comment that KPI A2.1 be amended to “Number of fatalities”.

Our response

Clarification

112. Aspect A2 relates to health and safety at workplace. So KPI A2.1 is intended to reflect the number of work-related fatalities. We agree to clarify KPI A2.1 that the number of fatalities relates to work-related fatalities only.

Additions

113. As a guide for issuers to start reporting, we consider that issuers could start by focusing on information relating to employees. Those with capabilities may consider extending the information to include contractors.
114. We will not adopt the additions at this stage. However, we recognise that these suggestions may have merit and we will consider them further for the next consultation.

Removal

115. We consider that the number of fatalities and lost days due to work injury are important indicators as they reflect workplace morale and productivity³⁴. They also show the effectiveness of an issuer’s health and safety management practices. We will not remove the KPIs.

Drafting

116. We consider the drafting comment appropriate.

Conclusion

117. We will adopt the drafting comment and amend KPI 2.1 to clarify that the number of fatalities relates to work-related fatalities.

³² This comment was mainly raised by NGO (3) and private practitioner (2) respondents.

³³ This comment was raised by business association (2) and practitioner (1) respondents.

³⁴ See page 12 of GRI Indicator Protocols Set- Labor Practices and Decent Work, and KPIs for ESG- A Guideline for Corporate on how to Report on ESG and Benchmark for Investment Professionals on how to integrate ESG into Financial Analysis (version 1.2) (“DVFA KPI Guideline (version 1.2)”).

Aspect A3 Development and training

118. We sought comments on the following disclosure for Aspect A3: Development and training. (*Consultation questions 17 to 19*)

General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Training refers to vocational training. It may include internal and external courses paid by the employer.
KPI A3.1	Description of training activities provided and if relevant, the percentage of employees trained by employee category (e.g. senior management, middle management, etc.).
KPI A3.2	The average training hours completed per employee by employee category.

119. We asked if there are additional KPIs for Aspect A3. (*Consultation question 20*)

Comments received

120. A large majority of the respondents³⁵ supported the proposed recommended disclosures.

Additions

121. Some respondents suggested adding:

- (a) breakdown by gender³⁶;
- (b) training topics³⁷. A respondent commented that training other than job-related activities are also important to daily business operations, such as anti-corruption, environment, labour regulations etc.

Drafting

122. There was a drafting comment that description of training activities in KPI A3.1 should be under general disclosure.

Our response

Additions

123. We note the comment on gender diversity. We are considering the issue as a separate exercise.

³⁵ We received overwhelming support from investor respondents.

³⁶ This comment was raised by NGO (2) and 26 individual and unlisted company respondents.

³⁷ This comment was raised by investor (2) and NGO (1) respondents.

124. The intention of this aspect is to indicate an issuer’s commitment to development and sustaining excellence by investing in employee’s skills and knowhow³⁸. We recognise that training in other job-related activities may also be important to daily business operations. However, we do not find wide support for their inclusion at this stage. We will also need to further define the scope of training topics that are recommended for reporting as reporting on every training topic may not be useful.
125. We will not adopt the additions at this stage. However, we will consider them further for the next consultation.

Drafting

126. We consider the drafting comment that description of training activities should be general disclosure instead of KPI appropriate.

Conclusion

127. We will amend the general disclosure and KPI A3.1 based on the drafting comments in paragraph 126.

Aspect A4 Labour standards

128. We sought comments on the following disclosure for Aspect A4: Labour standards (*Consultation questions 21 to 23*)

General disclosure	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.
KPI A4.1	Description of measures to review employment practices to avoid child and forced labour.
KPI A4.2	Description of steps taken to eliminate such practices when discovered.

129. We asked if there are additional KPIs for Aspect A4. (*Consultation question 24*)
Comments received
130. The overwhelming number of respondents supported the proposed recommended disclosures.

³⁸ See DVFA KPI Guideline (version 1.2).

Clarification

131. Some respondents³⁹ sought clarification on the definitions of child and forced labour.

Addition

132. Some respondents⁴⁰ considered that the disclosure should include practices to avoid child or forced labour of major suppliers.

Our response

133. We recognised that issuers may not be familiar with the concept of forced labour. We will include references to relevant International Labour Conventions in the Frequently Asked Questions to be posted on HKEx website.
134. Regarding disclosure of practices to avoid child or forced labour of major suppliers, please see our response in paragraph 176.

Conclusion

135. We will maintain the current proposed recommended disclosures under Aspect A4.

Aspect B1 Emissions

136. We sought comments on the following disclosure for Aspect B1: Emissions.
(*Consultation questions 25-31*)

General disclosure	<p>Information on:</p> <ul style="list-style-type: none">(a) the policies; and(b) compliance and material non-compliance with relevant standards, rules and regulations <p>on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.</p> <p>Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.</p> <p>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</p> <p>Hazardous wastes are those defined by national regulations.</p>
KPI B1.1	The types of emissions and respective emissions data.

³⁹ The comment was raised by an issuer respondent.

⁴⁰ The comment was raised by investor (1) and NGO (1) and private practitioner (1) respondents.

KPI B1.2	Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).
KPI B1.3	Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).
KPI B1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).
KPI B1.5	Description of measures to mitigate emissions and results achieved.
KPI B1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.

137. We asked if there are additional KPIs for Aspect B1. (*Consultation question 32*)

Comments received

138. We received large majority support for the proposed recommended disclosures.

Clarifications

139. Some respondents considered that we should refer to the Greenhouse Gas Protocol (GHG Protocol)⁴¹ for greenhouse gases emissions.

Additions

140. Some respondents suggested including percentage of waste recycled for KPI B1.3 and B1.4⁴².

Removals

141. A few issuer respondents suggested removing these indicators. They considered that the recommended disclosures will impose significant costs and administrative burden given their extensive operations.

Our response

Clarifications

142. We note that the GHG Protocol is a widely used international accounting tool. We will refer to the GHG Protocol in the Frequently Asked Questions to be posted on the HKEx website. We have also provided guidance in our workshop materials: http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/Documents/ws_slides.pdf.

⁴¹ This comment was raised by investor (1), NGO (4), practitioner (1) and individual (1) respondents.

⁴² This comment was raised by NGO (1) and practitioner (2) respondents.

Additions

143. KPI B1.6 suggests issuers to disclose description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. We consider this gives flexibility to issuers with respect to their environmental practices, which may include recycling, and disclosures. However, we recognise that these suggestions may have merit and we will consider them further for the next consultation.

Removals

144. The recommended disclosures are in line with international practices. They have been fine-tuned based on stakeholder consultation comments and seminar feedback. Also, what is not measured is not monitored and managed. We find reporting on these KPIs fundamental to improving environmental performance.
145. In addition, an issuer only needs to disclose where the information is relevant and material. As a start, it may report on information relating only to its key operations/entities as long as the scope of disclosure is clearly disclosed. We will maintain the recommended disclosures.

Conclusion

146. We will maintain the proposed recommended disclosures under Aspect B1 and refer to the GHG Protocol in the Frequently Asked Questions to be posted on the HKEx website.

Aspect B2 Use of resources

147. We sought comments on the following disclosure for Aspect B2: Use of resources.
(*Consultation questions 33 to 38*)

General disclosure	Policies on efficient use of resources including energy, water and other raw materials. Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.
KPI B2.1	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).
KPI B2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).
KPI B2.3	Description of energy use efficiency initiatives and results achieved.
KPI B2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.

KPI B2.5 Total packaging material used (in tonnes), and if applicable, with reference to per unit produced.

148. We asked if there are additional KPIs for Aspect B2. (*Consultation question 39*)

Comments received

149. We received large majority support for the proposed recommended disclosures.

Additions

150. Some respondents suggested adding:

- (a) percentage and total volume of water recycled and reused⁴³; and
- (b) percentage of operations in water-stressed areas⁴⁴.

Clarifications

151. Some respondents suggested clarifying that:

- (a) KPI B2.1 refers to direct and indirect energy consumption⁴⁵; and
- (b) what “total packaging material”⁴⁶ means.

Our response

Additions

152. We note that investors are particularly concerned about percentage of operations in water-stressed areas. However, to incorporate them into the Guide, we need clearer definitions of water-stressed areas in order for issuers to report. We will further consult with investors in this regard.

153. We consider that water recycled and reused may be covered under KPI B2.4 on water efficiency initiatives and results achieved.

154. We will not adopt the suggestions at this stage. However, we note there may be merit in the disclosure. We will consider them further for the next consultation.

Clarifications

155. We consider it appropriate to clarify that energy consumption relates to direct⁴⁷ and/or indirect⁴⁸ energy consumption.

⁴³ This comment was raised by investor (1), practitioner (2) and NGO (2) respondents.

⁴⁴ This comment was raised by investor (5) respondents.

⁴⁵ The comment was raised by investor (1), practitioner (1) and NGO (4) respondents.

⁴⁶ This comment was raised by issuer (1), NGO (1) and practitioner (1) respondents.

⁴⁷ Direct energy consumption refers to energy sources such as coal, natural gas, gasoline, diesel and liquefied

156. Packaging materials refer to packaging materials used for finished products. We agree to clarify this in the Guide.

Conclusion

157. We will clarify KPI B2.1 so that energy consumption relates to direct and/or indirect energy consumption and will clarify KPI B2.5 so that packaging materials refer to those used for finished products.

Aspect B3 The environment and natural resources

158. We sought comments on the following disclosure for Aspect B3: The environment and natural resources. (*Consultation questions 40 to 43*)

General disclosure	Policies on minimizing the operation's significant impact on the environment and natural resources.
KPI B3.1	Total paper used.
KPI B3.2	Paper use efficiency initiatives and results achieved.
KPI B3.3	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.

159. We asked if there are additional KPIs for Aspect B3. (*Consultation question 44*)

Comments received

160. A large majority of the respondents supported the recommended disclosures.
161. Some respondents considered that KPIs B3.1 and B3.2 are unimportant to most issuers⁴⁹.
162. Some respondents⁵⁰ considered that Aspect B3 should be included under Aspect B2.

Our response

163. As the Guide is for issuers to start reporting, we hope issuers will focus on issues that are most relevant to them. We also note that other international guidelines do not have specific recommended KPI disclosures on paper use. We will consider other KPIs that will better reflect use of resources/materials and consult at the next consultation. We agree to remove KPI B3.1 and B3.2 at this stage.

petroleum gas, etc.

⁴⁸ Indirect energy consumption refers to intermediate energy consumed or purchase from non-renewable energy such as electricity, heating and cooling, steam and nuclear energy, etc.

⁴⁹ This comment was raised by investor (5), issuer (3) and practitioner (1) respondents.

⁵⁰ This comment was raised by individual (1), practitioner (1) and issuer (1) respondents.

164. KPI B3.3 relates to impact of activities on the environment and natural resources, which are not limited to use of resources. We will retain Aspect B3 and B3.3.

Conclusion

165. We will remove KPIs B3.1 and B3.2.

Aspect C1 Supply chain management

166. We proposed the following disclosure for Aspect C1: Supply chain management. (*Consultation questions 45 to 47*)

Aspect C1	Supply chain management
General disclosure	Policies on risk management of supply chain.
KPI C1.1	Number of suppliers by geographical region.
KPI C1.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.

167. We asked if there are additional KPIs for Aspect C1. (*Consultation question 48*)

Comments received

168. A large majority of the respondents⁵¹ supported the proposed recommended disclosures.

Additions

169. Major comments included:

- (a) indicate suppliers by volume or value⁵²;
- (b) disclose number of non-compliances and corrective actions⁵³;
- (c) disclose how issuers mitigate risks⁵⁴.

Clarifications

170. Some respondents suggested:

⁵¹ We received overwhelming support for General disclosure and C1.2, while almost half of the issuer respondents disagree with KPI C1.1.

⁵² This comment was raised by investor (6), business association (1) and NGO (2) respondents.

⁵³ This comment was mainly raised by investor (5) respondents.

⁵⁴ This comment was raised by individual and issuer respondents.

- (a) clarifying that the risks relate to environmental and social risk of the supply chain⁵⁵;
- (b) clarifying the relevance of supply chain risk disclosure⁵⁶.

Our response

Additions

- 171. We note investors' concern on suppliers' information and we note that number of suppliers would not indicate the importance of the supplier in the region. However, we will need to consult issuers on whether there are any concerns about including information by value and volume to avoid any unintended consequences.
- 172. We consider that policies on risk management of supply chain will also indicate how issuers mitigate risks.
- 173. We understand from our stakeholder consultation that issuers may not have considered conducting audit on their suppliers. In fact, some issuers may not understand the relevance of disclosing supply chain risks, as evidenced in the respondents' comment in paragraph 170(b) and from our stakeholder consultation meetings with issuers. We suggest that as a start, issuers could consider their policies and practices regarding this issue and disclose accordingly⁵⁷.
- 174. However, we recognise that these suggestions have merit and we will consider them further for the next consultation.

Clarifications

- 175. The intention of the aspect is for issuers to consider and disclose environmental and social risks of the supply chain. We agree to clarify the general disclosure under aspect C1.
- 176. With respect to the comments in paragraph 170(b), we understand that issuers' stakeholders may be interested in how issuers apply their own environmental and social policies to their supply networks given the extensive networks of suppliers to produce products⁵⁸. We therefore propose including this aspect.

Conclusion

- 177. We will clarify the general disclosure under aspect C1 so that it relates to environmental and social risks of the supply chain.

⁵⁵ This comment was raised by practitioner respondents.

⁵⁶ This comment was raised by issuer (1) and business association (1) respondents.

⁵⁷ This is also consistent with DVFA ESG Guideline (version 3.0) which states that companies should report on how they interact with members of their supply chain, e.g. how suppliers' adherence to minimum ESG requirements is reviewed and how customers are informed about the company's ESG performance.

⁵⁸ See GRI and DVFA ESG Guideline (version 3.0).

Aspect C2 Product responsibility

178. We sought comments on the following disclosure for Aspect C2: Product responsibility. (*Consultation questions 49 to 54*)

General disclosure	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling, privacy and methods of redress.
KPI C2.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.
KPI C2.2	Number of products and service related complaints received and how they are dealt with.
KPI C2.3	Description of practices relating to observing and protecting intellectual property rights.
KPI C2.4	Description of quality assurance process and recall procedures.
KPI C2.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.

179. We asked if there are additional KPIs for Aspect C2. (*Consultation question 55*)

Comments received

180. The overwhelming number of respondents supported the recommended disclosures.

Additions

181. Some respondents suggested:

- (a) the aspect should also include services⁵⁹;
- (b) including customer satisfaction survey and results as an additional KPI⁶⁰.

Our response

⁵⁹ This comment was raised by individual (1) and business association (1) respondents.

⁶⁰ This comments was raised by a respondent from each category.

Additions

182. We recognise that besides producing products, many issuers are also in the service industry. We agree that the aspect should also include services.
183. We note the merit of including customer satisfaction survey and results⁶¹. We will consider this further for the next consultation.

Conclusion

184. We will clarify this aspect to include services.

Aspect C3 Anti-corruption

185. We sought comments on the following disclosure for Aspect C3: Anti-corruption. (*Consultation questions 56 to 58*)

General disclosure	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.
KPI C3.1	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.
KPI C3.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.

186. We asked if there are additional KPIs for Aspect C3. (*Consultation question 59*)

Comments received

187. A large majority of the respondents agreed with the proposed recommended disclosures.

Addition

188. Some respondents⁶² considered that it should include employee training on ethical standards.

⁶¹ We note similar recommended disclosures under PR 5 in the GRI and v06-01 under DVFA Guideline (version 3.0).

⁶² This comment was raised by investor (2), NGO (3) and practitioner (1) respondents.

Clarifications

189. Some respondents⁶³ considered that KPI C3.1 should refer to convicted cases, not concluded cases, while some⁶⁴ considered that issuer should report on the number and description of concluded cases against the issuer or its employees and the outcome of the cases.
190. Some respondents⁶⁵ considered that anti-corruption should be dealt with in the Corporate Governance Code as it is a governance matter.

Our response

Addition

191. Please see our response in paragraph 124.

Clarifications

192. The intention of KPI C3.1 is for issuers to disclose concluded cases and their outcomes. For stakeholders, there is an interest in both the occurrence of incidents and how the issuer chooses to respond⁶⁶.
193. We understand that anti-corruption is a governance matter. However, anti-corruption is generally known to be a corporate social responsibility issue⁶⁷. We will retain this in the Guide.

Conclusion

194. We will maintain the current recommended disclosures for Aspect C3.

Aspect D1 Community investment

195. We sought comments on the following general disclosure for Aspect D1: Community investment. (*Consultation questions 60 to 62*)

General disclosure	Policies on understanding the community's needs in where it operates and ensuring its activities takes into consideration of communities' interests.
KPI D1.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).
KPI D1.2	Resources contributed (e.g. money or time) to the focus area.

⁶³ This comment was raised by issuer (2) and practitioner (1) respondents. Some issuer respondents suggested removing this KPI.

⁶⁴ This comment was raised by practitioner (2) respondents.

⁶⁵ This comment was raised by issuer (1) and practitioner respondents.

⁶⁶ GRI, page 10 of Indicator Protocols Set- Society.

⁶⁷ Anti-corruption is one of the ten principles under the United Nations Global Compact and a principle under the OECD Guidelines for Multinational Enterprises. There are also corruption related indicators under the Society Indicator Protocols Set of the GRI and in the DVFA ESG Guidelines (version 3.0).

196. We asked if there are additional KPIs for Aspect D1. (*Consultation question 63*)

Comments received

Drafting

197. Some respondents⁶⁸ suggested rephrasing: “Policies on understanding the needs and interests of the community in which the company operates” or “Policies for engaging communities based on areas where the issuer operates to assess community needs and interests”, “Policies on community engagement to understand the community’s needs in where it operates and ensuring its activities...”

Removal

198. Some respondents⁶⁹ did not consider KPI D1.2 a meaningful KPI.

Our response

Drafting

199. We note that community engagement is also an important aspect under community involvement. We agree with the drafting comment that the general disclosure be “Policies on community engagement to understand the community’s needs in where it operates and ensuring its activities takes into consideration of communities’ interests.”

Removal

200. We understand that some respondents considered that community investment is also an important aspect of community involvement⁷⁰. We will retain the KPIs.

Conclusion

201. We will amend based on the drafting comment in paragraph 199.

⁶⁸ The comments were raised by issuer (1), NGO (1) and practitioner (2) respondents.

⁶⁹ The comment was mainly raised by investor (3), practitioner (1) and NGO (1) respondents.

⁷⁰ See Community Business, a non-profit organisation for advancing corporate social responsibilities: http://www.communitybusiness.org.hk/focus_areas/CI.htm.

APPENDIX II: LISTING RULE AMENDMENTS

Main Board Listing Rules

Chapter 13

EQUITY SECURITIES

CONTINUING OBLIGATIONS

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Environmental and Social Matters

13.91 Issuers are encouraged to include information set out in Appendix 27 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, an issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.

Appendix 16

DISCLOSURE OF FINANCIAL INFORMATION

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Information in annual reports

Recommended additional disclosure

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53. Issuers are encouraged to include information set out in Appendix 27 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, an issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.

Appendix 24

Headline Categories

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Schedule 4

Headline Categories for Financial Statements/ESG Information

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Environmental, Social and Governance Information/Report

Appendix 27

Environmental, Social and Governance Reporting Guide

Introduction

1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”).
2. This guide is not comprehensive. The Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs that are relevant to its business. It may also refer to existing international ESG reporting guidance for its relevant industry or sector.
3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards.
4. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report, in print or on its website. Where the information is included in a separate report, an issuer is free to report on any period. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.
5. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a committee that reports to the board.
6. Issuers may consider offering assurance on the ESG report.

How this guide is organised

7. There are four ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. Corporate Governance is not included as it is dealt with separately in Appendix 14 of the Main Board Listing Rules.

8. Each subject area has various aspects. For each relevant aspect, an issuer could report on the general disclosure and KPIs that indicate its performance.

General Approach

Identify subject areas, aspects and indicators that are relevant

9. Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer's business. Also, some may be more important to an issuer's business than others. For example, product responsibility, an ESG aspect, may be important to a retailer.
10. An issuer is encouraged to prioritise ESG subject areas, aspects and KPIs that are material in the context of its corporate strategy, which could be given prominence in the report.
11. It is unnecessary to report on all subject areas, aspects and KPIs. An issuer is encouraged to identify and report on relevant ESG subject areas, aspects and KPIs that have material environmental and social impacts. Materiality can be addressed in strategic, operational and financial terms.

Engage stakeholders

12. It is important to engage stakeholders periodically to identify material aspects and KPIs and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of an issuer. They may include shareholders (including independent shareholders), business partners, employees, suppliers, sub-contractors, consumers, regulators and the public.
13. The ESG report could disclose the issuer's stakeholders and the basis for their identification. It may also disclose the activities the issuer has arranged to engage stakeholders, the objectives and how it has responded to stakeholders' views. Stakeholder engagement may be conducted through meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires, web-based forums and written consultations.
14. The ESG report may also disclose a mechanism for stakeholders to provide feedback.

Reporting guidance

Scope of reporting

15. An issuer is encouraged to state in its ESG report which entities in the group and/or which operations have been included for the report. If there is change in the scope, the issuer is encouraged to explain the difference and reason for change.

Approaches to reporting

16. Once an issuer starts reporting, it is encouraged to continue to do so regularly. The aspects and KPIs reported could be consistent for each period or there could be an

explanation of the changes. An issuer may also explain why some aspects and KPIs are not reported.

17. An ESG report could state the issuer’s ESG management approach, strategies, priorities, objectives and explain how they relate to its business. It could discuss the issuer’s management, measurement and monitoring system to implement its ESG strategies.
18. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed. For example, a telecommunication company may see an opportunity to promote teleconferencing as an alternative to travel due to climate change concerns. An information and technology company may see the damage to its reputation from a breach in consumer privacy as an ESG risk.

Reporting on line items

19. The Guide does not provide a definition for each KPI. An issuer is encouraged to explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs. It may use the same definition and calculation method each period for comparison over time. If there is a change to the definition or calculation method, the issuer could explain the difference and reason for the change.
20. Over time, an issuer may present time series of data for comparison over a period already reported on. The time period used may be consistent for every report.
21. An issuer may report line items with objective and representative industry benchmarks.
22. Quantitative information could be presented in a table format.

Subject areas, aspects, general disclosure and KPIs

A. Workplace quality

<u>Aspect A1</u>	<u>Working conditions</u>
<u>General disclosure</u>	<u>Information on:</u> <u>(a) the policies; and</u> <u>(b) compliance and material non-compliance with relevant standards, rules and regulations</u> <u>on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity and other benefits and welfare.</u>
<u>KPI A1.1</u>	<u>Total workforce by employment type, age group and geographical region.</u>
<u>KPI A1.2</u>	<u>Employee turnover rate by age group and geographical region.</u>

<u>Aspect A2</u>	<u>Health and safety</u>
<u>General disclosure</u>	<p><u>Information on:</u></p> <p>(a) <u>the policies; and</u></p> <p>(b) <u>compliance and material non-compliance with relevant standards, rules and regulations</u></p> <p><u>on providing a safe working environment and protecting employees from occupational hazards.</u></p>
<u>KPI A2.1</u>	<u>Number and rate of work-related fatalities.</u>
<u>KPI A2.2</u>	<u>Lost days due to work injury.</u>
<u>KPI A2.3</u>	<u>Description of occupational health and safety measures adopted, how they are implemented and monitored.</u>
<u>Aspect A3</u>	<u>Development and training</u>
<u>General disclosure</u>	<p><u>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.</u></p> <p><u>Training refers to vocational training. It may include internal and external courses paid by the employer.</u></p>
<u>KPI A3.1</u>	<u>The percentage of employees trained by employee category (e.g. senior management, middle management, etc.).</u>
<u>KPI A3.2</u>	<u>The average training hours completed per employee by employee category.</u>
<u>Aspect A4</u>	<u>Labour standards</u>
<u>General disclosure</u>	<p><u>Information on:</u></p> <p>(a) <u>the policies; and</u></p> <p>(b) <u>compliance and material non-compliance with relevant standards, rules and regulations</u></p> <p><u>on preventing child or forced labour.</u></p>
<u>KPI A4.1</u>	<u>Description of measures to review employment practices to avoid child and forced labour.</u>
<u>KPI A4.2</u>	<u>Description of steps taken to eliminate such practices when discovered.</u>

B. Environmental protection

<u>Aspect B1</u>	<u>Emissions</u>
<u>General disclosure</u>	<p><u>Information on:</u></p> <p>(a) <u>the policies; and</u></p> <p>(b) <u>compliance and material non-compliance with relevant standards, rules and regulations</u></p> <p><u>on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.</u></p> <p><u>Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.</u></p> <p><u>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</u></p> <p><u>Hazardous wastes are those defined by national regulations.</u></p>
<u>KPI B1.1</u>	<u>The types of emissions and respective emissions data.</u>
<u>KPI B1.2</u>	<u>Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).</u>
<u>KPI B1.3</u>	<u>Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).</u>
<u>KPI B1.4</u>	<u>Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).</u>
<u>KPI B1.5</u>	<u>Description of measures to mitigate emissions and results achieved.</u>
<u>KPI B1.6</u>	<u>Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.</u>
<u>Aspect B2</u>	<u>Use of resources</u>
<u>General disclosure</u>	<p><u>Policies on efficient use of resources including energy, water and other raw materials.</u></p> <p><u>Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</u></p>
<u>KPI B2.1</u>	<u>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).</u>

<u>KPI B2.2</u>	<u>Water consumption in total and intensity (e.g. per unit of production volume, per facility).</u>
<u>KPI B2.3</u>	<u>Description of energy use efficiency initiatives and results achieved.</u>
<u>KPI B2.4</u>	<u>Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.</u>
<u>KPI B2.5</u>	<u>Total packaging material used for finished products (in tonnes), and if applicable, with reference to per unit produced.</u>
<u>Aspect B3</u>	<u>The environment and natural resources</u>
<u>General disclosure</u>	<u>Policies on minimizing the operation's significant impact on the environment and natural resources.</u>
<u>KPI B3.1</u>	<u>Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.</u>

C. Operating practices

<u>Aspect C1</u>	<u>Supply chain management</u>
<u>General disclosure</u>	<u>Policies on managing environmental and social risks of supply chain.</u>
<u>KPI C1.1</u>	<u>Number of suppliers by geographical region.</u>
<u>KPI C1.2</u>	<u>Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.</u>
<u>Aspect C2</u>	<u>Product responsibility</u>
<u>General disclosure</u>	<u>Information on:</u> <u>(a) the policies; and</u> <u>(b) compliance and material non-compliance with relevant standards, rules and regulations</u> <u>on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</u>
<u>KPI C2.1</u>	<u>Percentage of total products sold or shipped subject to recalls for safety and health reasons.</u>
<u>KPI C2.2</u>	<u>Number of products and service related complaints received and how they are dealt with.</u>

KPI C2.3 Description of practices relating to observing and protecting intellectual property rights.

KPI C2.4 Description of quality assurance process and recall procedures.

KPI C2.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.

Aspect C3 Anti-corruption

General disclosure Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on bribery, extortion, fraud and money laundering.

KPI C3.1 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.

KPI C3.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.

D. Community involvement

Aspect D1 Community investment

General disclosure Policies on community engagement to understand the community's needs in where it operates and ensuring its activities takes into consideration of communities' interests.

KPI D1.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).

KPI D1.2 Resources contributed (e.g. money or time) to the focus area.

Chapter 17

EQUITY SECURITIES

CONTINUING OBLIGATIONS

17.103 Issuers are encouraged to include information set out in Appendix 20 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, an issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.

Chapter 18

EQUITY SECURITIES

FINANCIAL INFORMATION

Recommended additional disclosure

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18.84 Issuers are encouraged to include information set out in Appendix 20 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, an issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.

Appendix 17

Headline Categories

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Schedule 4

Headline Categories for Financial Statements/ESG Information

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Environmental, Social and Governance Information/Report

Appendix 20

Draftsman's note: please refer to Appendix 27 of the Main Board Listing Rule amendments for content.

APPENDIX III: ESG REFERENCES

Subject areas, aspects, general disclosure and KPIs

References

(please note that these references are not exhaustive and are for reference only.)

A. *Workplace quality*

Aspect A1	Working conditions	
General disclosure	<p>Information on:</p> <ul style="list-style-type: none"> (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations <p>on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity and other benefits and welfare.</p>	<p>The principles are broadly based on internationally recognized standards such as:</p> <ul style="list-style-type: none"> • UN Universal Declaration of Human Rights; • UN Convention: International Covenant on Civil and Political Rights; • ILO Declaration on Fundamental Principles and Rights at Work, 1998; • ILO Convention 155, “Occupational Safety and Health Convention”, 1981 and its Protocol of 2002; • ILO Convention 142, “Human Resources Development Convention”, 1975; • ILO Convention 182, “Convention Concerning the prohibition and immediate action for the elimination of the worst forms of child labour”, 1999; • ILO Convention 105, “Abolition of Forced Labour Convention”, 1957; • United Nations Global Compact; • OECD Guidelines for Multinational Enterprises. <p>Hong Kong also recognizes the importance of employees’ benefits and providing a safe workplace. Major labour legislation includes:</p>

- Employment Ordinance;
- Employee’s Compensation Ordinance;
- Occupational Safety and Health Ordinance;
- Minimum Wage Ordinance;
- Sex Discrimination Ordinance;
- Family Status Ordinance;
- Race Discrimination Ordinance;
- Disability Discrimination Ordinance.

KPI A1.1 Total workforce by employment type, age group and geographical region.

GRI: LA1
DVFA: S03-01

KPI A1.2 Employee turnover rate by age group and geographical region.

GRI: LA2
DVFA: S01-01

Aspect A2 Health and safety

General disclosure

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on providing a safe working environment and protecting employees from occupational hazards.

KPI A2.1 Number and rate of work-related fatalities.

GRI: LA7
DVFA: S04-03

KPI A2.2	Lost days due to work injury.	GRI: LA7 DVFA: S04-04
KPI A2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	
Aspect A3	Development and training	
General disclosure	<p>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.</p> <p>Training refers to vocational training. It may include internal and external courses paid by the employer.</p>	
KPI A3.1	The percentage of employees trained by employee category (e.g. senior management, middle management, etc.).	
KPI A3.2	The average training hours completed per employee by employee category.	GRI: LA10
Aspect A4	Labour standards	
General disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations</p> <p>on preventing child or forced labour.</p>	<p>International references include:</p> <ul style="list-style-type: none"> • United Nations Universal Declaration of Human Rights; • Forced labour: ILO Core Conventions 29 and 105; • Child labour: <ul style="list-style-type: none"> - Convention on the Rights of the Child, 1989; - ILO Convention 138 on the minimum age for admission to employment and work; - ILO Convention No. 182 on the worst forms of child labour, 1999.

KPI A4.1 Description of measures to review employment practices to avoid child and forced labour.

KPI A4.2 Description of steps taken to eliminate such practices when discovered.

B. Environmental protection

Aspect B1	Emissions
General disclosure	<p>Information on:</p> <ul style="list-style-type: none">(a) the policies; and(b) compliance and material non-compliance with relevant standards, rules and regulations <p>on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.</p> <p>Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.</p> <p>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</p> <p>Hazardous wastes are those defined by national regulations.</p>
	<p>International references include:</p> <ul style="list-style-type: none">• Greenhouse Gas Protocol;• Kyoto Protocol, 1997. <p>Hong Kong key environmental legislations include:</p> <ul style="list-style-type: none">• Air Pollution Control Ordinance;• Waste Disposal Ordinance;• Water Pollution Control Ordinance;• Hazardous Chemicals Control Ordinance. <div data-bbox="1209 1173 1993 1236" style="border: 1px solid green; padding: 5px; margin-top: 20px;">Carbon Disclosure Project</div>

KPI B1.1	The types of emissions and respective emissions data.	GRI: EN19, EN20 DVFA: E03—01
KPI B1.2	Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	GRI: EN16 DVFA: E02-01 Hong Kong Environmental Protection Department’s letter to issuers entitled “Corporate Social Responsibility- Reporting of Greenhouse Gas Emissions” dated 11 June 2012 and “Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential and Institutional Purposes) in Hong Kong”: http://www.epd.gov.hk/epd/english/climate_change/files/Guidelines_English_2010.pdf .
KPI B1.3	Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	GRI: EN22 DVFA: E06-01
KPI B1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	GRI: EN22
KPI B1.5	Description of measures to mitigate emissions and results achieved.	GRI: EN18
KPI B1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	GRI: EN22

Aspect B2	Use of resources
General disclosure	Policies on efficient use of resources including energy, water and other raw materials.

Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.

KPI B2.1	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).	GRI: EN3, EN4
KPI B2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	DVFA: E28-01
KPI B2.3	Description of energy use efficiency initiatives and results achieved.	GRI: EN6
KPI B2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	
KPI B2.5	Total packaging material used for finished products (in tonnes), and if applicable, with reference to per unit produced.	GRI: EN27

Aspect B3	The environment and natural resources	
General disclosure	Policies on minimizing the operation's significant impact on the environment and natural resources.	
KPI B3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	GRI: EN12

C. *Operating practices*

Aspect C1	Supply chain management	
General disclosure	Policies on managing environmental and social risks of supply chain.	<p>International standards relating to product responsibility and anti-corruption include:</p> <ul style="list-style-type: none"> • UN Global Compact; • OECD Guidelines for Multinational Enterprises; • United Nations Convention Against Corruption. <p>Hong Kong regulations:</p> <ul style="list-style-type: none"> • Prevention of Bribery Ordinance; • Sales of Goods Ordinance; • Consumer Goods Safety Ordinance; • Trade Marks Ordinance; • Copyright Ordinance. <p>Please see G4 Exposure Draft (https://www.globalreporting.org/resourcelibrary/G4/G4-Exposure-Draft.pdf) for definition of supply chain.</p>
KPI C1.1	Number of suppliers by geographical region.	DVFA: V28-01
KPI C1.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	DVFA: V28-04
Aspect C2	Product responsibility	

General disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations</p> <p>on products and services health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>
KPI C2.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.
KPI C2.2	Number of products and service related complaints received and how they are dealt with.
KPI C2.3	Description of practices relating to observing and protecting intellectual property rights.
KPI C2.4	Description of quality assurance process and recall procedures.
KPI C2.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.

DVFA: S05-02

Aspect C3 Anti-corruption

General disclosure	<p>Information on:</p> <p>(a) the policies; and</p>
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(b) compliance and material non-compliance with relevant standards, rules and regulations

on bribery, extortion, fraud and money laundering.

KPI C3.1 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.

GRI: S04

KPI C3.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.

D. Community involvement

Aspect D1	Community investment
General disclosure	Policies on community engagement to understand the community's needs in where it operates and ensuring its activities takes into consideration of communities' interests.
KPI D1.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).
KPI D1.2	Resources contributed (e.g. money or time) to the focus area.

Key:

GRI—Global Reporting Initiative Sustainability Reporting Guidelines (<https://www.globalreporting.org>)

DVFA— KPIs for ESG- A Guideline for Integration of ESG into Financial Analysis and Corporate Valuation published by the Society of Investment Professionals in Germany (http://www.dvfa.de/files/die_dvfa/kommissionen/non_financials/application/pdf/KPIs_ESG_FINAL.pdf)

APPENDIX IV: LIST OF RESPONDENTS

Institutional investors and related association (10)

1. Association for Sustainable & Responsible Investment in Asia
2. AXA Investment Managers Ltd.
3. British Columbia Investment Management Corporation
4. F&C Asset Management
5. FIL Investment Management (Singapore) Limited
6. Hermes Equity Ownership Services
7. Mn
8. Norges Bank Investment Management
- 9.-10. 2 institutional investors requested anonymity

Listed companies and business associations (26)

11. Australian Chamber of Commerce Hong Kong and Macau
12. British Chamber of Commerce
13. The Canadian Chamber of Commerce in Hong Kong
14. Cathay Pacific Airways Limited
15. The Chamber of Hong Kong Listed Companies
16. CITIC Bank
17. CLP Holdings Limited
18. Office for Social Responsibility of CNTAC
19. Hong Kong Aircraft Engineering Company Limited
20. Hong Kong General Chamber of Commerce
21. The Hongkong and Shanghai Hotels, Limited
22. Hutchison Whampoa Limited
23. Standard Chartered PLC
24. Swire Pacific Limited
25. Swire Properties Limited
- 26.-36. 11 listed companies requested anonymity

Practitioners and professional bodies (14)

37. ACCA Hong Kong
38. Asia Value Advisors Ltd.
39. BDO Financial Services Limited
40. Hong Kong Institute of Certified Public Accountants
41. The Hong Kong Institute of Chartered Secretaries
42. The Hong Kong Institute of Directors
43. Intertek Testing Services HK
44. The Law Society of Hong Kong
45. Pacific Risk Advisors
46. PricewaterhouseCoopers
47. Protiviti Hong Kong Co., Ltd.
48. SHINEWING Risk Services Limited
- 49.-50. 2 practitioners requested anonymity

Individuals and unlisted companies (45)

51. Ma. Cristina D. Arcilla
52. Bayer MaterialScience Limited
53. Robin Bishop
54. Kevin Burns
55. Daniel Chan
56. Marlene Chan
57. YF Chau
58. Fengjie Du
59. Ravi Gidumal
60. Gidumal & Sons Ltd
61. Rosemary Halfhead
62. Emily Huang
63. Fai Hui
64. Mary Ellen Hutton
65. C. Peabody Hutton
66. Suresh Kanji
67. Qing Lam
68. Yeewa Lau
69. Lesley
70. Petra Loho
71. Shalini Mahtani
72. Donna Pang Wing Yan
73. Josephine Price
74. Pooja Shahani
75. Standard Chartered Bank (Hong Kong) Limited
76. Neil Stevens
77. Suen Chi Wai
78. Ho Yan Tong
79. Kate Vernon
80. Clare Williams
81. King-Sze Yip
- 82.-95. 14 Individuals and unlisted companies requested anonymity

Non-government organisations and others (11)

96. Asian Transnational Corporation Monitoring Network
97. Bloomberg LP
98. Business Environment Council Limited
99. Carbon Disclosure Project
100. Civic Exchange
101. Community Business Limited
102. The Global Reporting Initiative
103. International Corporate Governance Network
104. Oxfam Hong Kong
105. Responsible Research Pte Ltd
106. WWF – Hong Kong

