HKEX
香港交易所

November 2022

2022 Analysis of ESG Practice Disclosure

CONTENTS

EXECUTIVE SUMMARY

1. The Stock Exchange of Hong Kong Limited ("**Exchange**") is committed to creating a sustainable regulatory framework by advocating for and introducing robust ESG standards and regulations. Since the introduction of the ESG Reporting Guide ("**ESG Rules**")[1] in 2013, enhancements have been made to our ESG Rules over the years to ensure our requirements remain fit for purpose and reflect stakeholders' expectation.

2. In July 2020, we introduced new requirements to our ESG Rules[2] with a focus on board governance and oversight of ESG issues, as well as consideration and mitigation of significant climate change risks ("**2020 Enhancements**"). The 2020 Enhancements incorporated certain key recommendations of the Taskforce on Climate-related Financial Disclosures ("**TCFD**")[3].

3. This report sets out the findings of our review of issuers' compliance with our ESG Rules ("**Review**")[4]. As part of our continuing effort to maintain high ESG standards amongst our issuers, we hope that our recommendations, through identifying improvement areas and providing guidance, will assist and lead to enhancements in issuers' ESG reporting practices.

Scope of Review

4. The Review focuses on the following areas of issuers' ESG practices under the 2020 Enhancements:

   (i) board governance of ESG issues;

   (ii) climate change;

   (iii) social issues; and

   (iv) reporting practices.

5. We analysed ESG reports for the financial year ended 30 June 2021, 31 December 2021 and 31 March 2022 published by a sample of 400 issuers ("**Sample Issuers**")[5].

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[1] Appendix 27 of Main Board Listing Rules / Appendix 20 of GEM Listing Rules.
[2] HKEX news release dated 18 December 2019.
[3] In June 2017, the TCFD developed a framework to help companies consistently measure and communicate their climate-related exposures, which was widely adopted by investors and governments globally. For details, please refer to: https://www.fsb-tcfd.org.
[4] From 2016, all issuers are required to produce an ESG report annually under the Listing Rules. Since then, the Exchange conducts periodic review of issuers' ESG practice disclosures. This is the Exchange's third ESG practices review, and past reports are available here.
[5] See the Appendix for the distribution of Sample Issuers.

Our observations and recommendations

Board governance of ESG issues (see Chapter 1)

6. The emphasis of the 2020 Enhancements is elevating ESG issues to the boardroom. We are delighted to see that our mandatory Rules have driven behavioral changes amongst our issuers, where a vast majority of Sample Issuers disclosed their boards' oversight and management approach on ESG issues. Monitoring the progress against ESG goals and targets is key to the board's evaluation of the effectiveness and efficiency of the measures taken against particular ESG risks. Issuers are reminded that disclosure of the process or approach adopted for the board's progress review, and the results of the review, is mandatory under the ESG Rules.

Climate change (see Chapter 2)

7. Sample Issuers generally acknowledged the importance of climate-related risks, with over 85% of Sample Issuers chose to make disclosures of all new climate-related requirements[6]. This reflected issuers' commitment and effort in managing climate risks. The Exchange supports the establishment of the International Sustainability Standards Board ("**ISSB**") for developing globally accepted sustainability reporting standards that build on the TCFD framework. Our findings reinforce the direction towards further enhancing climate-related disclosures in line with the TCFD framework and the new ISSB climate standards.

8. Around a third of Sample Issuers have gone further to start reporting on scope 3 GHG emissions, and around 5% of Sample Issuers adopted climate-related scenario analysis for climate resilience assessment. Recognising the challenges faced by issuers around data collection and availability of technical knowledge or expertise for reporting certain items[7], we will take these into account when formulating our climate disclosure enhancement proposals. Issuers are strongly encouraged to get familiar with the new ISSB climate standards for planning and building the necessary infrastructure and system in preparation of the enhanced climate reporting requirements.

Social issues (see Chapter 3)

9. The Hong Kong Government has announced the carbon neutrality target by 2050 and Hong Kong's Climate Action Plan 2050[8]. Supply chain plays an important role to operating a

[6] These include consideration of significant climate-related risks and mitigation measures; setting of certain environmental targets; and reporting on scope 1 and scope 2 GHG emissions.
[7] For example, scope 3 GHG emissions, climate-related scenario analysis and transition plan to low carbon economy.
[8] https://www.climateready.gov.hk/.

"sustainable business" and ensuring a smooth transition to low carbon economy. Issuers should include in their ESG reports information on practices to identify environmental and social risks along the supply chain, and practices to promote green procurement.

Reporting practices (see Chapter 4)

10. Issuers should apply the Reporting Principles[9] when preparing their ESG reports for delivery of meaningful and decision-useful ESG information. Where quantitative disclosures are made, issuers should also include information on the methodologies, standards and assumptions adopted in arriving at the figures.

11. Issuers are reminded that effective from the financial year commencing on or after 1 January 2022, ESG reports should be published at the same time as the annual reports ("**New Publication Requirement**")[10]. Issuers who are yet to align the publication of the ESG reports with the annual reports should pay particular attention to their new deadlines.

Way forward

12. We are committed to promoting high standards of responsible corporate governance and ESG practices by advocating for and introducing robust standards and regulations. We are currently reviewing our ESG framework with a focus to enhance climate disclosures amongst our issuers, taking into account the market readiness and the challenges issuers face.

13. Recognizing that issuers are at different stages on their sustainability journey, we have published a wide range of guidance and training materials covering different topics to guide issuers through their journey. Our "Guidance on Climate Disclosures" provides practical tips to assist issuers in preparing TCFD-aligned climate change reporting. We have also organised climate disclosures training sessions to help issuers better understand how they can incorporate TCFD recommendations into their business strategy and disclosures[11].

14. To facilitate issuers and stakeholders' understanding on the evolving ESG requirements and improve accessibility to our guidance materials, we have launched a centralized ESG resources platform "ESG Academy". The Exchange will continue to provide guidance and

[9] They are (i) Materiality; (ii) Quantitative; (iii) Balance; and (iv) Consistency.
[10] In December 2021, the Exchange published Conclusions on Review of the Corporate Governance Code to require issuers to, among other things, publish ESG reports at the same time as publication of annual reports.
[11] Organised in collaboration with the United Nations Sustainable Stock Exchanges Initiative, International Finance Corporation, CDP and SynTao Green Finance: https://www.hkex.com.hk/Listing/Sustainability/ESG-Academy/Publications-and-Training/Webinar-Series/Climate-Disclosures-Training?sc_lang=en.

training and enrich our platform to help our issuers building a more sustainable business and put their ESG principles into practice.

CHAPTER 1: BOARD GOVERNANCE OF ESG ISSUES

15. The board has a collective responsibility to oversee the company's ESG strategy and reporting. A culture from the top-down can ensure ESG considerations being embedded in the business decision-making process.

16. The 2020 Enhancements require all issuers to disclose a board statement[12] covering:

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

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

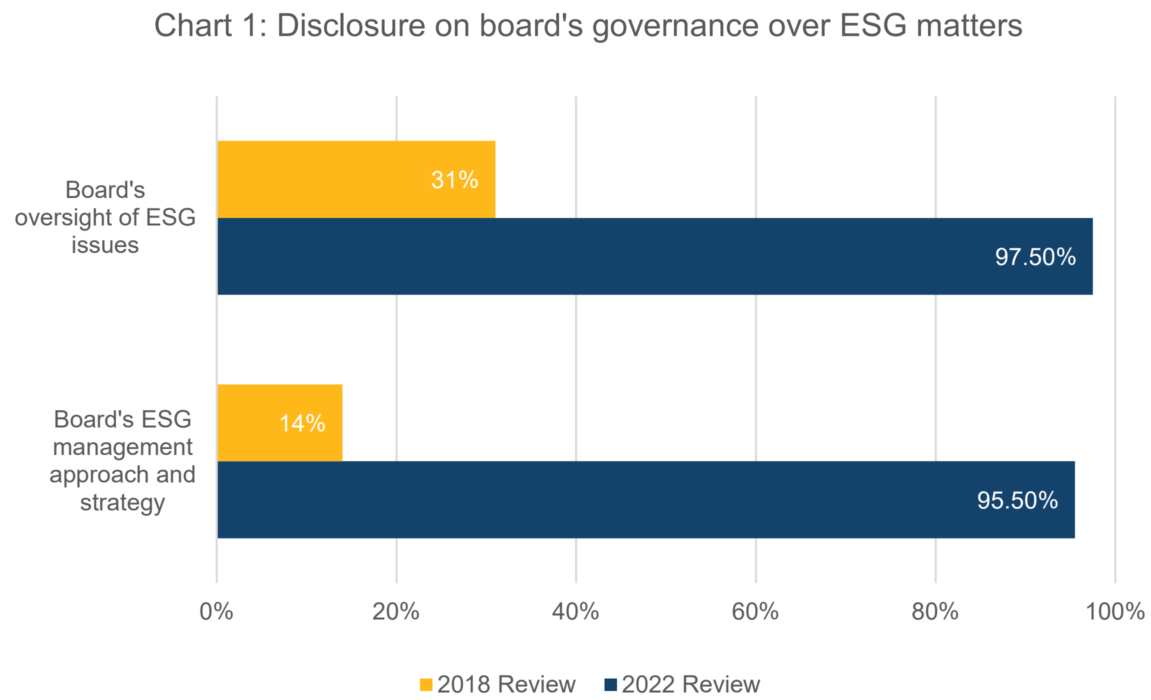
    (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.

17. The aim of introducing this mandatory disclosure requirement ("**MDR**") is to urge the board to take a leadership role in overseeing ESG issues. This facilitates the board's understanding and management of ESG risks and promotes accountability in this area. Governance is also one of the four core pillars of the TCFD recommendations.

Observation

18. Following the introduction of mandatory ESG governance disclosures, we are delighted to note a significant improvement in board's governance over ESG matters as compared to our last review[13]:

[12] Paragraph 13 of the ESG Rules (MDR).
[13] In December 2019, the Exchange published findings of the review of listed issuers' ESG disclosure in Analysis of Environmental, Social and Governance Practice Disclosure in 2018 ("**2018 Review**"). Disclosure of board governance and management approach over ESG matters was not mandatory under the then prevailing ESG Rules.



19. A vast majority of Sample Issuers disclosed how the board oversees and manages ESG issues. Sample Issuers provided information on (i) the ESG governance structure; and (ii) where there is a designated working group or committee for ESG matters, the roles and duties of such working group or committee. Some Sample Issuers made use of flowcharts or diagrams to illustrate the governance structure (including the different reporting line(s) and division of responsibilities).

20. While a majority of Sample Issuers had disclosed ESG-related goals and targets (including specific targets under certain environmental KPIs[14]), only around 40% of them disclosed the process and results of the progress review.

Recommendations

21. Shareholders, investors and other stakeholders have increasingly demanded for information on the board's role in overseeing ESG risks and opportunities. Such information can support evaluations of whether significant ESG risks and opportunities receive appropriate attention from the board and the management.

[14] KPIs A1.5 (emission target), A1.6 (waste reduction target), A2.3 (energy use efficiency) and A2.4 (water efficiency) of the ESG Rules.

22. Apart from stating the board's responsibility on governance of ESG matters, issuers should also disclose information that enables readers to understand the relevant processes, controls and procedures used to monitor and manage ESG matters. This may involve elaboration on:

    (i) relevant expertise or skills of the board, or the designated committee or management-level positions, for effective oversight on ESG matters;

    (ii) interaction between the board and the designated committee or the management-level positions, including the frequency and form of reporting to the board;

    (iii) frequency of the board's discussion on ESG issues;

    (iv) internal and external resources and expertise available for the ESG management process; and

    (v) alignment of ESG governance with an issuer's business strategy.

23. Monitoring the progress against ESG-related goals and targets facilitates the board's evaluation of the effectiveness and efficiency of the relevant adaption or mitigation measures taken against particular ESG risks. Information on the process or approach adopted for the review is key to readers' understanding and appraisal of the company's ESG commitment. The discussion may include:

    (i) measurement system or industry benchmark adopted for progress assessment;

    (ii) process for data collection and verification; and

    (iii) comparison with the historical data and how the baseline is selected.

    Issuers are required to disclose how the board monitors the progress of ESG-related goals and targets set. Issuers are reminded that failure to comply with this requirement would constitute a breach of the Listing Rules.

24. Issuers should also provide information on the results of the review, especially for targets or goals set for different timeframes. Where targets are not achieved, issuers should disclose the reasons, and the board's discussion or assessment on what can be done to achieve the targets or whether any adjustments should be made to the targets. Where the progress is satisfactory, issuers may include further information on whether the trend can be maintained or will be affected in the future (if so, why and what can be done).

CHAPTER 2: CLIMATE CHANGE

25. Climate change poses substantial transition risks and physical risks on issuers across many, if not all sectors. Not only would climate-related risks affect issuers' long term sustainability and profit, how such risks are managed would also affect investors' perception and evaluation of the issuers.

26. In December 2020, the Hong Kong Green and Sustainable Finance Cross Agency-Steering Group[15] ("**Steering Group**") announced its intention to make TCFD-aligned climate-related disclosures mandatory across relevant sectors no later than 2025[16].

27. In November 2021, the International Financial Reporting Standards ("**IFRS"**) Foundation announced the formation of the new ISSB for the development of global sustainability reporting standards, adopting the "climate-first" approach[17]. Building on the TCFD framework, the IFRS Foundation in March 2022 published the climate disclosure standard exposure draft and general sustainability disclosure requirements exposure draft, which form the basis for the ISSB standards[18].

28. The ISSB standards are expected to be finalised as early as possible in 2023[19], and the International Organization of Securities Commissions has indicated its intention to endorse the new ISSB standards. The Steering Group has also expressed its support towards adopting the ISSB standards.

29. The Exchange has been promoting transparent and reliable climate disclosures in recent years. The 2020 Enhancements align with the TCFD recommendations by requiring issuers to:

[15] Established in May 2020, the Steering Group is co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission. Members include the Environment Bureau, Financial Services and the Treasury Bureau, HKEX, Insurance Authority and the Mandatory Provident Fund Schemes Authority. The Steering Group aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies.
[16] https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/12/20201217-4/.
[17] https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/.
[18] https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/.
[19] https://www.ifrs.org/news-and-events/news/2022/10/issb-unanimously-confirms-scope-3-ghg-emissions-disclosure-requirements-with-strong-application-support-among-key-decisions/.

(i) consider significant climate-related issues which have impacted, or may impact, the issuers and how issuers mitigate such issues[20];

(ii) develop targets and plans in respect of reduction of emission and waste, and improving efficiency in energy and water use[21]; and

(iii) disclose scope 1 and scope 2 greenhouse gas ("**GHG**") emissions[22].

30. In November 2021, we further published a "Guidance on Climate Disclosures" to provide practical tips to assist issuers in preparing TCFD-aligned climate change reporting. We have also organised climate disclosures training sessions to help issuers better understand how they can incorporate TCFD recommendations into their business strategy and disclosures[23].

31. The Exchange, as a member of the Steering Group, supports the establishment of ISSB for developing globally accepted sustainability reporting standards that build on the TCFD framework. We will collaborate with other regulators in Hong Kong to work on a roadmap to evaluate and potentially adopt the new ISSB standards.

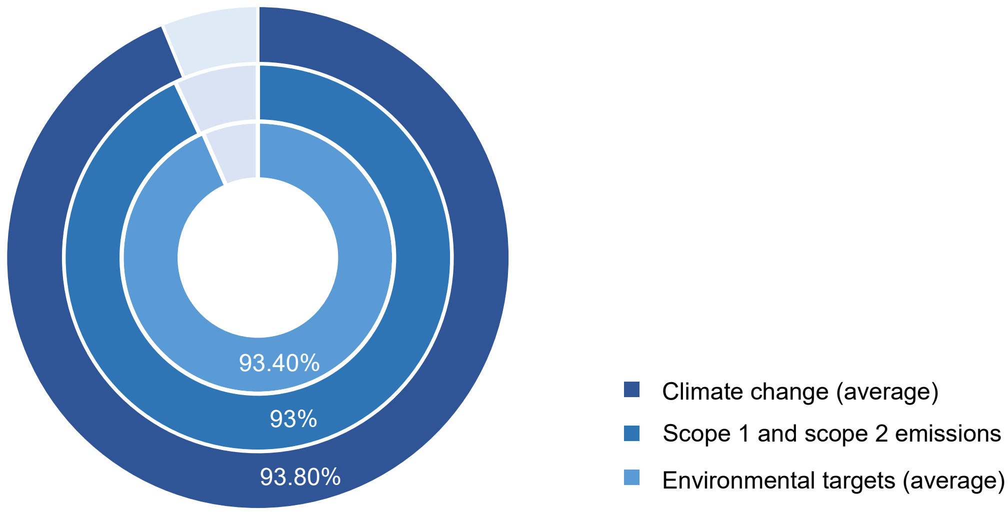
Observation

32. We are delighted to see that a vast majority of Sample Issuers acknowledged the importance of climate-related risks, and chose to make disclosures of all new climate-related requirements[24]. This reflected issuers' commitment and effort in managing climate-related risks, and reinforced our direction towards further enhancing climate-related disclosures in line with the TCFD framework and the new ISSB climate standards.

33. Chart 2 summarises the findings on climate-related disclosures:

[20] Aspect A4 of the ESG Rules.
[21] See footnote 14.
[22] KPI A1.2 of the ESG Rules.
[23] Organised in collaboration with the United Nations Sustainable Stock Exchanges Initiative, International Finance Corporation, CDP and SynTao Green Finance: https://www.hkex.com.hk/Listing/Sustainability/ESG-Academy/Publications-and-Training/Webinar-Series/Climate-Disclosures-Training?sc_lang=en.
[24] Over 85% of Sample Issuers made disclosures under the new climate requirements.

Chart 2: Reporting rate of climate-related matters



34. Among those Sample Issuers who reported on targets pursuant to the relevant environment key performance indicators ("**KPIs**")[25], more than two-thirds gave qualitative targets (i.e. directional, forward-looking statements). Some of them merely stated generic measures for achieving such targets, without discussing the impact of the relevant risks on the business or operations. A few Sample Issuers provided generic explanations where the targets were deemed irrelevant or immaterial to their business.

35. Over one-fifth of Sample Issuers considered or referred to the TCFD recommendations when making climate disclosures. Most of them structured the disclosures under the four pillars of the TCFD recommendations[26], but only a few of them reported on every single line item listed in the TCFD recommendations.

36. Premised on the TCFD recommendations, the ISSB climate standards contemplate disclosures on scope 3 GHG emissions and climate-related scenario analysis, which are currently not required under our ESG Rules. In the Review, we also looked into issuers' readiness for reporting on these matters:

[25] See footnote 14.
[26] Namely, governance, strategy, risk management, and metrics and targets.

(i) Scope 3 GHG emissions: over a third of Sample Issuers have gone further to start considering scope 3 emissions, and made voluntary disclosures on limited type(s) of activities along the value chain[27].

(ii) Climate-related scenario analysis: less than 5% of Sample Issuers adopted climate-related scenario analysis, who are usually in a highly regulated business (e.g. utilities; banks) and have demonstrated a greater awareness of climate risks. They are generally at a more advanced stage in terms of the climate reporting journey than the average Sample Issuers.

Recommendations

Environmental targets

37. While targets can be numerical figures or directional, forward looking statements, we encourage issuers to start setting quantitative targets where feasible. Quantitative targets are widely requested by climate reporting frameworks, financiers and investors for evaluating the company's management of climate risks and estimating the financial effects of climate risks on the company.

38. Directional statements may be relevant when new climate-related initiatives are being launched, or in the absence of a baseline from past performance. Issuers should however start collecting and disclosing numerical data as soon as possible.

39. Where some metrics are considered irrelevant or immaterial, issuers should provide a detailed explanation on the analysis and make reference to the materiality assessment where relevant.

GHG emissions

40. Some issuers disclosed a total figure for both scope 1 and scope 2 GHG emissions. The ESG Rules envisage issuers to separately disclose scope 1 and scope 2 GHG emissions so that readers can have an appreciation of the issuers' different categories of GHG emissions. This is also in line with the TCFD recommendations.

41. Scope 3 GHG emissions are the indirect emissions outside of scope 2 emissions that occur in the value chain of the company. Its coverage includes emissions from upstream activities

[27] As scope 3 emissions concern all the indirect emissions that occur in the company's value chain, the GHG Protocol categorizes such activities into 15 reporting categories to facilitate measuring and managing such emissions. The most common category being reported on is "Business Travel", which is relatively easier as the data may be available internally.

such as capital goods and transportation and downstream activities such as end-of-life treatment and investment.

42. Information on scope 3 GHG emissions can provide investors and stakeholders with a more comprehensive picture of issuers' carbon footprint, especially for issuers with carbon emissions induced along their value chain.

43. Reporting on scope 3 GHG emission is contemplated under the new ISSB climate standards, and issuers should start considering reporting as soon as practicable. Given that the computation of scope 3 GHG emission is more complex than that of scope 1 and scope 2 GHG emissions, we suggest issuers develop a systematic approach to calculate and report their data by:

    (i) identifying the scope and types of emissions in, and the categories of significant upstream or downstream activities along, the value chain to be included in the reporting based on a materiality assessment;

    (ii) determining a feasible and effective method to collect and verify emission data;

    (iii) applying appropriate calculation methodologies to quantify emissions from different activities; and

    (iv) consistently disclosing emission figures with reference to reporting frameworks.

44. The Greenhouse Gas Protocol published a "Technical Guidance" to facilitate measuring and managing scope 3 GHG emissions, which classified scope 3 GHG emissions into 15 categories, each with suggested calculation methodologies[28]. The Exchange also issued guidance to provide practical tips to assist issuers in reporting scope 3 GHG emissions[29].

Climate-related scenario analysis

45. The likelihood, magnitude and timing of climate risks affecting a company are complex and uncertain. Factoring in such uncertainties is important in understanding the resilience of a company's strategy (including its business operations) to climate change.

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[28] The Greenhouse Gas Protocol, Technical Guidance for Calculating Scope 3 Emissions, 2013.
[29] The Exchange, Guidance on Climate Disclosures, November 2021; and The Exchange, How to Prepare an ESG Report - Appendix 2: Reporting guidance on Environmental KPIs, last updated in March 2022.

46. A company's analysis of the resilience of its strategy to climate change can be conducted using different methods, and climate-related scenario analysis is one of the established tool that is recommended by climate reporting frameworks.

47. Issuers need to set the scope and boundaries to confirm the scenarios, which are hypothetical pathways, to be adopted. It is crucial that the scope and boundaries represent issuers' material business operations.

48. Issuers may refer to publicly available scenarios[30] and make the necessary adaptions to reflect their own circumstances. To facilitate discussions and analyses on the potential impacts of climate-related issues under different conditions, issuers are recommended to develop at least two scenarios for comparison.

49. Issuers should then identify physical and transition risks parameters that are material to their operations, and collect relevant data to evaluate their impacts under different scenarios.

50. The Exchange's Guidance on Climate Disclosures contains practical tips on how to perform a climate-related scenario analysis, and can be used as a reference.

Climate disclosure enhancements

51. To further align our regulatory requirements with the TCFD recommendations and reflect the development of the ISSB standards, the Exchange is reviewing our ESG Rules with a focus on enhancing climate disclosures. When formulating our proposals, we will take into account our findings in this Review, in particular, the challenges faced by issuers around data collection and availability of technical knowledge or expertise for reporting certain items.

52. Issuers should get familiar with the climate disclosure requirements under the ISSB climate standards and identify gaps in internal policies and practices. This will help planning upgrades or enhancements to existing infrastructures or systems in preparation of reporting under the new requirements.

[30] International Panel on Climate Change, International Energy Agency, and Network for Greening the Financial System are common sources of publicly available scenarios.

CHAPTER 3: SOCIAL ISSUES

53. The impact resulting from social issues is of no less importance than environmental risks, and should be carefully considered as part of an effective governance structure. This is emphasized in the 2020 Enhancements by:

(i) upgrading the disclosure obligation of all Social KPIs from voluntary to "comply or explain";

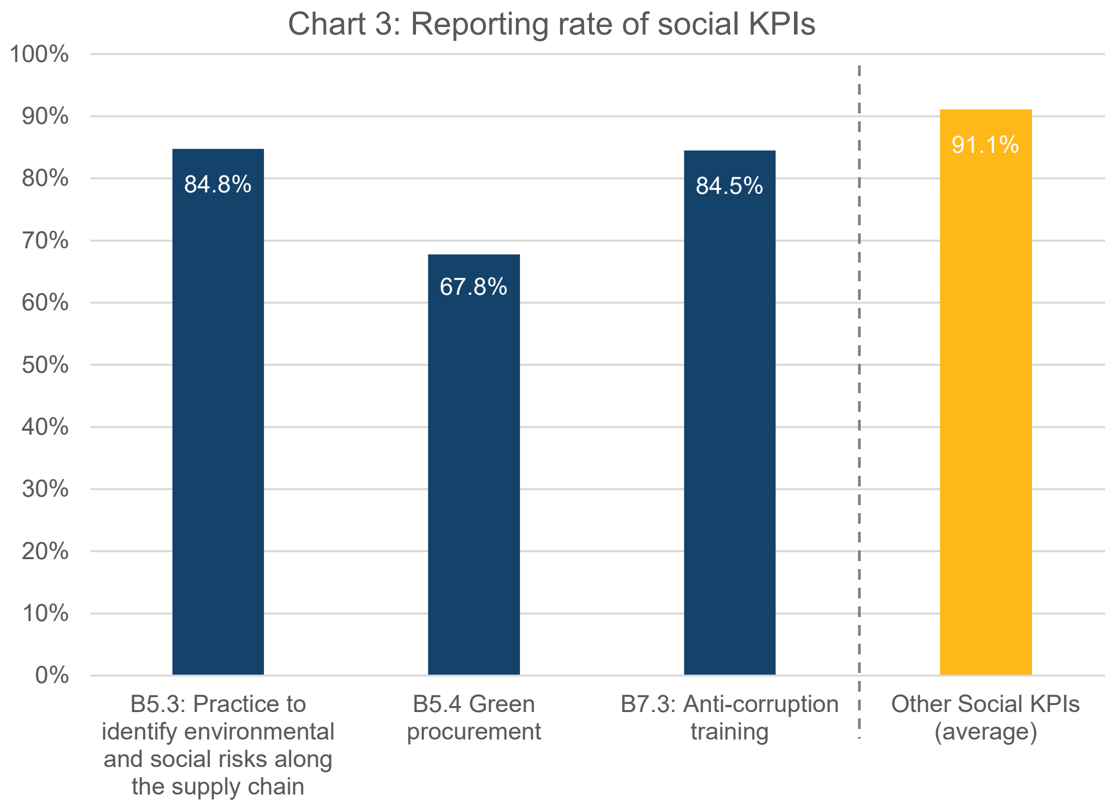
(ii) introducing new KPIs[31] in respect of supply chain management (practices to identify environmental and social risks along the supply chain, and practices to promote environmentally preferable products and services when selecting suppliers); and

(iii) introducing a new KPI[32] regarding anti-corruption training provided to directors and staff (together with (ii), "**New Social KPIs**").

Observation

54. The reporting level of the New Social KPIs is lower than the average of other Social KPIs, most likely because the individual Sample Issuers overlooked these newly introduced KPIs.

[31] KPI B5.3 and KPI B5.4.
[32] KPI B7.3.



55. Some Sample Issuers disclosed generic practices to identify environmental and social risks along the supply chain that are not specific to their businesses. Regarding practices to promote green procurement, while some Sample Issuers discussed the factors considered in the process, some merely stated the support for green procurement without providing further details.

56. While a majority of Sample Issuers provided anti-corruption training to directors and staff, the disclosures generally lacked details about the training activities.

Recommendations

57. Supply chain plays an important role to operating a "sustainable business". To facilitate stakeholders' understanding of the company's supply chain risk management and green procurement practices, issuers may consider including the following in the ESG reports:

(i) personnel or team that are responsible for managing supply chain sustainability and their duties;

(ii) process for identifying significant environmental and social risks along the supply chain, and how to assess the impact of such risks on the issuer's business operations;

(iii) actions taken or to be taken to mitigate or address the environmental and social risks along the supply chain;

(iv) criteria for selection of suppliers, and how such factors promote green procurement; and

(v) measures for monitoring supply chain risks and green procurement practices.

58. Anti-corruption training is crucial to promote high ethical standards and boost investors' confidence[33]. Issuers should include information on the scope and method of the training, the audience as well as the frequency of the training provided.

[33] To enhance the awareness of ethical standards in listed companies of Hong Kong, the Independent Commission Against Corruption has developed guides and trainings on anti-corruption practice and disclosures, including Anti-Corruption Programme - A Guide for Listed Companies and Ethics Promotion Programme for Listed Companies.

CHAPTER 4: REPORTING PRACTICES

59. Our ESG Rules lay out four Reporting Principles[34] that underpin the preparation of meaningful and decision-useful ESG information. Usefulness is further enhanced if the information is relevant, credible and timely. The 2020 Enhancements reflect our commitment to continuously improve the quality of ESG information by:

(i) requiring an explanation on the application of "Materiality", "Quantitative" and "Consistency" Reporting Principles[35];

(ii) requiring an explanation of the reporting boundary and identification process for including specific entities or operations in ESG reports[36];

(iii) shortening the publication timeframe of ESG reports to within five months after the financial year end[37]; and

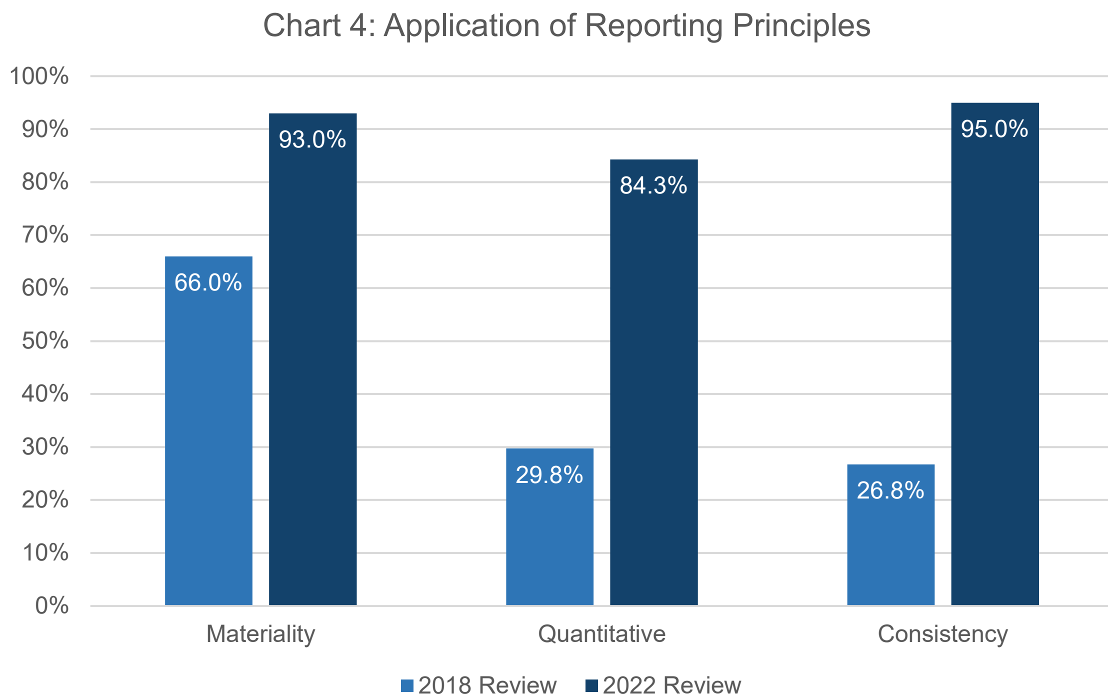
(iv) encouraging independent assurance, and enhancing disclosures where independent assurance of ESG reports is obtained[38].

Observation

Application of Reporting Principles and reporting boundary

60. Chart 4 shows the compliance rate regarding the application of Reporting Principles in comparison to the findings in the last review[39]:

[34] They are (i) Materiality; (ii) Quantitative; (iii) Balance; and (iv) Consistency.
[35] Paragraph 14 of the ESG Rules (MDR).
[36] Paragraph 15 of the ESG Rules (MDR).
[37] See footnote 10. The New Publication Requirement applies to ESG reports covering financial year commencing from 1 January 2022, and therefore the ESG reports covered in this Review are not subject to the Amendment.
[38] Paragraph 9 of the ESG Rules.
[39] Disclosure of the application of Reporting Principles was not mandatory under the then prevailing ESG Rules.



61. We are pleased to note a significant improvement in the compliance level as well the quality of disclosure for materiality assessment. Diagrams or materiality matrix was commonly adopted to illustrate issuers' materiality assessment.

62. Regarding the application of "Quantitative" Reporting Principle, where Sample Issuers disclosed numerical figures in the ESG reports, some omitted to provide information on the standards, calculation methodologies, assumptions or conversion factors used for reporting.

63. Around 98% of Sample Issuers stated the reporting boundary of their ESG reports. Apart from following the scope of the annual report, some Sample Issuers applied a financial threshold (e.g. inclusion of subsidiaries contributing to a certain percentage of the group's revenue) or geological location of businesses in determining the scope of their ESG reports.

Publication timeline of ESG reports

64. Almost all[40] Sample Issuers complied with the requirements to publish ESG reports within five months after the financial year end.

[40] Two Sample Issuers published their ESG reports after 5 months of the financial year end.

65. 58%[41] of Sample Issuers managed to publish their ESG reports on the same day as their annual reports, in advance of the New Publication Requirement becoming effective.

Chart 5: Publication of ESG Reports

Independent assurance

66. 6.7% of Sample Issuers obtained independent assurance, with description of the level, scope and processes adopted for assurance. A majority of them also attached the assurance reports to the ESG reports.

Recommendations

Application of Reporting Principles

67. Issuers should provide details on how they applied the Reporting Principles. Merely re-stating the Reporting Principles would not be considered as compliance with the requirement.

68. Disclosure of numerical figures alone is not sufficient for investors to make an informed assessment of the company's ESG performance. The "Quantitative" Reporting Principle also entails information on the methodologies, standards and assumptions adopted in deriving quantitative metrics and targets. Issuers may refer to our step-by-step guide for more practical tips in this regard[42].

69. Issuers should use consistent methodologies to allow for meaningful comparisons of ESG information over time. If there is no change to the methods or KPIs used, issuers should state so in the ESG reports for transparency. Issuers should provide details of any changes to the methods or KPIs used and the rationale behind, or any other factors which may affect a meaningful comparison.

[41] 6.5% of Sample Issuers published ESG reports before publication of the annual reports.
[42] See "How to Prepare an ESG Report: A Step-by-Step Guide to ESG Reporting".

Explanation of reporting boundary

70. Depending on their business and circumstances, issuers should have their own criteria for determining the coverage of their ESG reports. In addition to stating the coverage of the ESG reports, issuers should also describe how they arrive at such determination. Setting an overall reporting boundary for the ESG report does not prevent issuers from adopting different boundaries for certain Aspects or KPIs, so long as such is clearly stated in the ESG reports.

71. ESG reporting evolves over time along with issuers' business and operations. If there are any changes in the reporting boundary, such as acquisition or disposal of subsidiaries, issuers should specify the changes in the ESG reports.

Publication timeline of ESG reports

72. Issuers are reminded that ESG reports for the financial year commencing on or after 1 January 2022 should be published at the same time as the annual report. Issuers who are yet to align the publication of the ESG reports with the annual reports should pay particular attention to the new deadlines.

Independent assurance

73. Independent assurance helps enhance the credibility of ESG information and the quality of ESG reporting, and provide investors with more reliable data for analysis.

74. We understand that some issuers may be concerned about the cost or compliance burden associated with independent assurance. Issuers may choose to obtain assurance for part(s) of the ESG reports or for certain data (e.g. GHG emissions), so long as the scope of assurance is clearly set out in the ESG reports.

75. While the development of a set of globally-accepted assurance standards specifically for ESG reports is still underway, issuers may refer to ISAE 3000[43], which is the standard for assurance over non-financial information issued by the International Auditing and Assurance Standards Board, or guidance issued by the Hong Kong Institute of Certified Public Accountants relating to assurance of ESG information[44].

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[43] The International Auditing and Assurance Standards Board, International Standard on Assurance Engagements 3000, December 2013.
[44] For example: AATB 5 – ESG Assurance Reporting; AATB 6 – Non-Authoritative Guidance on Applying HKSAE 3000 (Revised) to Extended External Reporting Assurance Engagements.

APPENDIX: METHODOLOGY AND OVERALL STATISTICS

Background

76. The ESG Rules require reporting of certain MDRs, and 12 Aspects under the "Environmental" Subject Area and "Social" Subject Area on a "comply or explain" basis.

77. Each Aspect contains two distinct types of provisions: (a) general disclosures, including an issuer's policies and, in some Aspects, compliance with laws and regulations; and (b) KPIs, including targets set and steps taken in certain specific matters.

78. For a "comply or explain" provision, an issuer should report the requested information, or give considered reasons for the non-disclosure.

Methodology

79. A sample was selected comprising 400 Sample Issuers[45] with financial year-end mainly on 30 June 2021, 31 December 2021 and 31 March 2022[46]. The selections were a random sample for a weighting to achieve an industry distribution reflective of all listed issuers in Hong Kong.

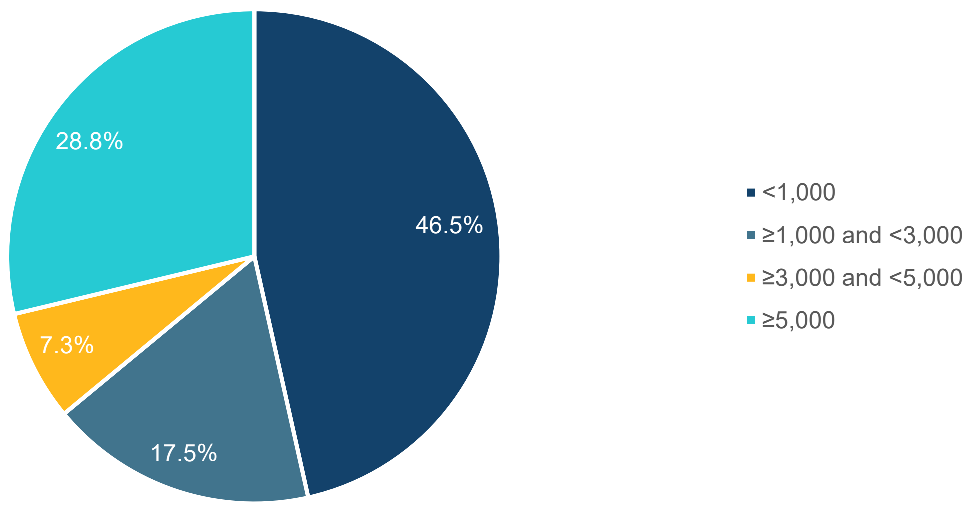
80. The distribution of the Sample Issuers across different industries is set out in the table below.

Industry[47]	Number of issuers	% of Sample Issuers
Conglomerates	6	1.50%
Consumer Discretionary	106	26.50%
Consumer Staples	21	5.25%
Energy	11	2.75%
Financials	43	10.75%
Healthcare	27	6.75%
Industrials	54	13.50%
Information Technology	30	7.50%
Materials	24	6.00%
Properties & Construction	58	14.50%
Telecommunications	3	0.75%
Utilities	17	4.25%
Total	**400**	**100.00%**

[45] Among the Sample Issuers, 353 (88%) are Main Board issuers and 47 (12%) are GEM issuers.
[46] 10 Sample Issuers have other financial year ends.
[47] The industry categories adopt the Hang Seng Industry Classification System.

81. Chart 6 presents the distribution of Sample Issuers by market capitalization as of 31 December 2021.

Chart 6: Distribution of Sample Issuers by Market Capitalisation (in HK$ million)



82. For the purposes of this Review, readers should note that:

(i) A “comply or explain” provision is described as “reported” if it was either “complied” or “explained”;

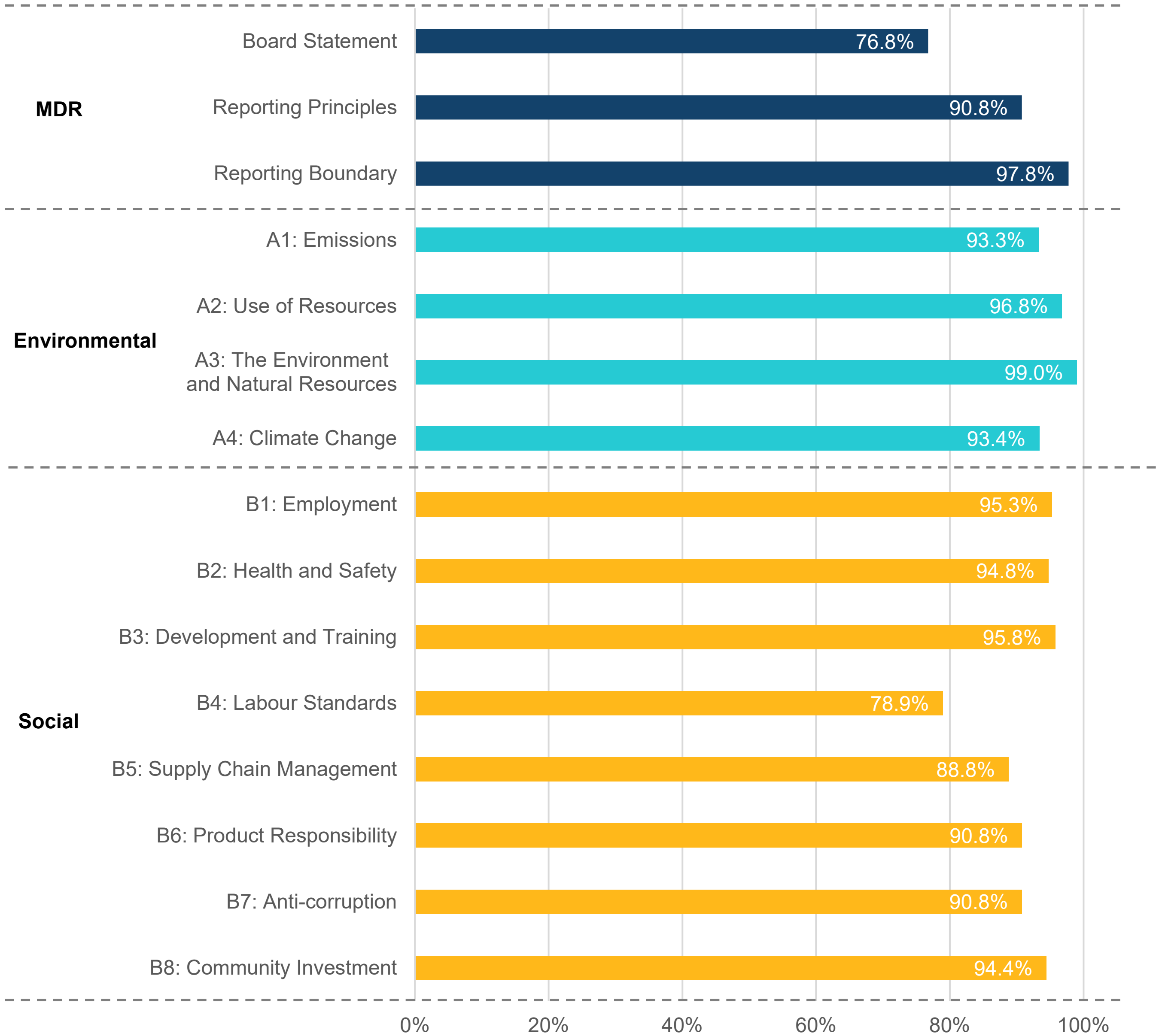
(ii) A MDR is described as “reported” if an issuer provided the required disclosure regarding each paragraph of that MDR; and

(iii) “Average reporting rate” means the average value of the reporting rates across (a) all “comply or explain” provisions under an Aspect; or (b) all required disclosure under a MDR.

Overall statistics

83. Chart 7 below shows the average reporting rates of each MDR and Aspect. Apart from the MDR on board statement and “labour standards” Aspect, all the other MDRs and Aspects have a reporting rate of at least 89%.

Chart 7: Average reporting rates of all MDRs and Aspects



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