



Research report on the sustainability trends of Hong Kong listed companies





Executive Summary



Global warming poses an imminent threat to the global population. The rise in extreme climate disasters, damage to ecosystems, and intensified socio-economic burdens are just a few spillover effects. Addressing global climate change requires extensive economic and social systemic changes, as well as the engagement of stakeholder groups across society, which is critical in building a sustainable community and realising the century-long plan of reducing emissions. To facilitate this mission, guidance from regulatory policies, support of investment and financing in the financial market, transformation of industry production methods and individuals' consumption patterns are all essential. In this regard, Environmental, Social and Governance (ESG) has become a key focus area for enterprises, and ESG and sustainable development continue to reshape the future. PwC fully recognises the importance of listed companies' taking action and practicing sustainability.

This report analyses the performance of Hong Kong listed companies' sustainable development capabilities through six major developmental trends focused on ESG, with relevant suggestions. These six trends are:

- 1. Sound ESG governance facilitates the realisation of a company's wider business strategy.** Supervision from the Board of Directors' on the implementation of strategic ESG goals and regular evaluations on whether the company has adopted a robust ESG risk management strategy serve to control risk impacts and capitalize on opportunities to achieve the company's overall sustainable development business goals.
- 2. In-depth stakeholder engagement is essential for achieving ESG strategic results and high-quality disclosure.** Companies need to have a deep understanding of ESG issues that concern stakeholders and work on integrating them with the company's strategic development. The involvement of stakeholders is crucial to and can even drive the setting-up of ESG targets.
- 3. Strengthening management and prioritising targets: enterprises are moving towards a new stage of scientific ESG targets.** With the context of China's "dual carbon" goals, there is a distinct trend of companies strengthening the management of energy conservation and emissions reduction. Thus, companies should fully understand their own carbon emissions, identify relevant emission reduction pathways, set energy conservation and emission reduction targets, to facilitate a low-carbon transition and seize opportunities arising from the "dual carbon" era.
- 4. In view of climate change, there is greater disclosure on enterprises' climate risk response and management.** With the rise in risks that comes with global climate change, importance and attention levels on climate-related topics continue to rise. There is an urgent need for listed companies to examine the risks and opportunities brought about by climate change and gradually adjust their strategies and business modes in response. Listed companies need to actively take reference to TCFD and similar frameworks to conduct climate-related disclosures, begin in-depth and practical climate risks identification and assessments, and strengthen climate governance structures, strategies and performance, to respond to the demands on climate change information from stakeholders such as regulatory and financial groups.
- 5. The quality and credibility of ESG data and related disclosures are under unprecedented scrutiny.** In light of this, the application of ESG digital tools to improve ESG data quality has become a clear trend. Companies should consider seeking independent third-party assurance on their ESG reports to further increase credibility and transparency.
- 6. ESG presents Green Finance opportunities for enterprises.** In the post-pandemic era, investors are gradually focusing more and more significantly on the realisation of both long-term and sustainable investment return. As green financing services continue to develop and mature, companies that actively participate in green finance can expedite their green-oriented transitions and enhance their sustainable development capabilities.

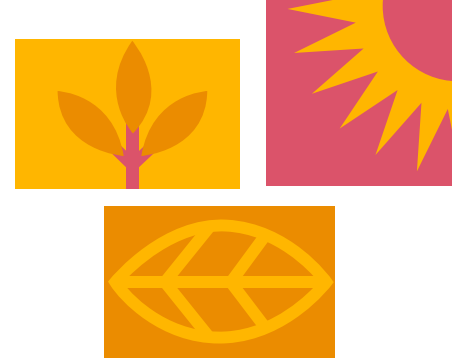
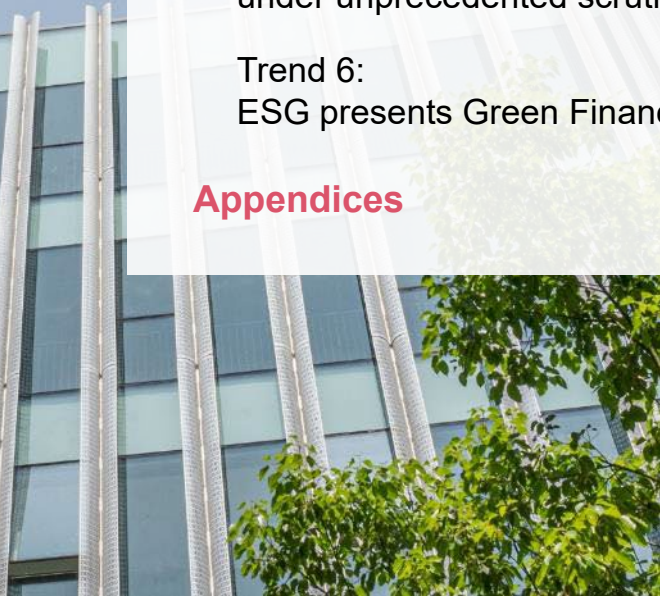


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1. Background and methodology



Study background

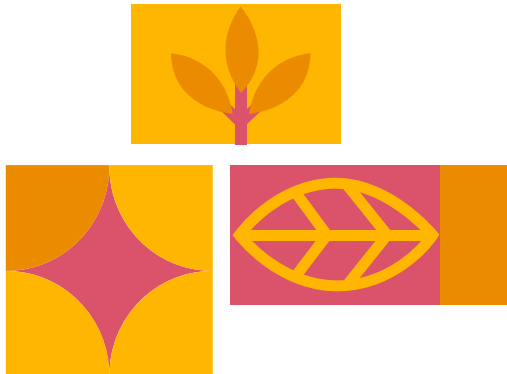
In our world today, where global economies continue to integrate with one another, the level of integration and interactions between our economic activities and the ecological environment is also deepening. Resource shortage, ecological damage, and environmental pollution, to name a few – have become issues of common concern across society. Among these issues, global warming comes with a series of serious consequences, including the increased occurrence of extreme disasters, the destruction of ecosystems, and the aggravation of social and economic burdens. If urgent efforts are not taken, global temperatures are expected to rise by 5° C, food production will decrease by 50% and 75% of species will face extinction by the end of the 21st century¹. In response, people around the world have stepped-up to address climate change together. At the international level, the signing of the Paris Agreement in 2015 marked the beginning of the transition to a low-carbon world, urging participating countries to take measures to limit the global average temperature increase during the 21st century to well below 2° C, and limit temperature increase to 1.5° C above pre-industrial levels, in order to jointly address the challenge of climate change and slow down global warming². In China, the “dual 30-60 carbon goals” programme was formally proposed in September 2020. China's commitment to the world to achieve peak carbon emissions by 2030 and carbon neutrality by 2060 underlines China's determination to play a leading role in global climate governance. On 9 August 2021, the IPCC issued an urgent alarm on the consequences of global warming in its latest report, urging countries to immediately and drastically reduce greenhouse gas emissions.

Addressing global climate change requires extensive economic and social systemic changes, as well as the engagement of stakeholder groups across society, which is critical in building a sustainable community and realising the century-long plan of reducing emissions. These are not possible without guidance from regulatory policies, support of investment and financing in the financial market, innovation of production methods in various industries, and a transformation in individuals' lifestyles and consumption habits. In this regard, Environmental, Social and Governance (ESG) has become a key focus area for enterprises, and ESG and sustainable

development continue to reshape the future. As a result, ESG concepts are gradually occupying dominant positions in various capital markets, and the demand for and requirements on ESG disclosures are also increasingly prominent. ESG rating agencies such as Morgan Stanley Capital International (MSCI), Carbon Disclosure Project (CDP), Standard & Poor's (S&P Global Rating) and Hang Seng Corporate Sustainability Index Series (HSSUS), have included climate change or carbon management in the assessment scope as an important element of assessment for corporate's ESG performance³.

HKEX continues to strengthen its ESG disclosure guidance to push for continuous improvement in sustainability performance in listed companies through information disclosure. The ESG Reporting Guide issued by the HKEX came into effect on July 1 2020, requiring the Board of Directors to have overall responsibility over ESG matters, targets for environmental KPIs and disclosure on the impact of significant climate-related issues. Meanwhile, disclosure requirements for KPIs under the social aspect have been upgraded from “recommended” to “comply or explain”. *The Guidelines on Corporate Governance and Environmental, Social and Governance* published by the HKEX on 5 November 2021 encourages and supports listed companies to report in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). At the same time, the Green and Sustainable Finance Cross-Agency Steering Group has also announced its intention to make climate-related disclosure in line with the TCFD recommendations mandatory by 2025.

Through a study of ESG reports from Hong Kong-listed companies, this report seeks to provide an in-depth analysis of corporate's ESG management philosophy as well as development trends in ESG. We call on all stakeholders to take urgent action to jointly combat climate change and practice the values of sustainable development, to collaborate towards a future where society and nature can thrive. We welcome your valuable opinions and suggestions on this publication, and hope you will join us in the continued work of refining and implementing relevant sustainability initiatives.



Study focus

ESG indicators have become important considerations for policy makers, regulators, business managers, investors, financial institutions and other significant stakeholders in the implementation of sustainability strategies. With the popularisation of ESG investment concepts and the emerging concept of "carbon neutrality", investment institutions are increasingly concerned about the ESG performance of Chinese companies, while national ESG requirements for companies are gradually increasing under the "dual 30·60 carbon goals". What information do Hong Kong listed companies expect to convey to the public through an ESG report? What market trends does its ESG disclosure reflect? What ESG opportunities and risks are emerging in various industries? How do companies understand the deep implications of ESG? How does one prepare for future regulatory disclosure requirements? For listed companies in mainland China, what experiences or lessons can be drawn from the ESG disclosure of Hong Kong listed companies?

PwC fully recognises the importance of assisting listed companies to take action on sustainability. In this study, our main focus is on companies' performance relating to six ESG trends:



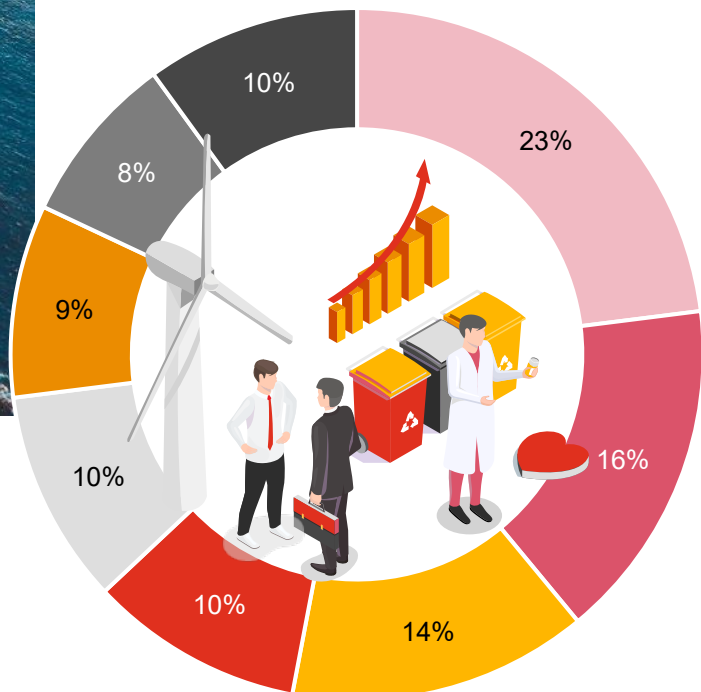


Study methodology

The study was conducted through online questionnaires and key case studies. We invited a large number of Hong Kong listed companies to complete online questionnaires, with 205 responses received from various sectors including real estate and construction (23%), TMT (16%), retail (14%), manufacturing (10%), banking (10%), energy (9%), healthcare (8%) and others (asset management, automotive, etc.) (around 10%).

In this publication, we used research data to analyse the corporate performance and key areas of focus under the six ESG trends; at the same time, we invited companies to share their best practices on ESG implementation, as reference points for the implementation of enterprise ESG management.

Breakdown of responding industries



- | | |
|---|---|
| ■ Real estate and construction | ■ Telecommunications, media and technology (TMT) |
| ■ Retail | ■ Manufacturing |
| ■ Banking | ■ Energy |
| ■ Healthcare | ■ Others |



2. Overview of findings



Based on an analysis of the responses from 205 Hong Kong listed companies, this study presents an overview of ESG performance relating to six ESG trends as follows:

Trend 1: Sound ESG governance facilitates the realisation of a company's wider business strategy

73%

of enterprises already have ESG strategies or plans in place, or have incorporated them into their core business strategies



72%

of the Board of Directors have established an ESG committee or an ESG Working Group within the enterprises



53%

of the Board of Directors reviews progress towards ESG targets regularly



Less than **10%**

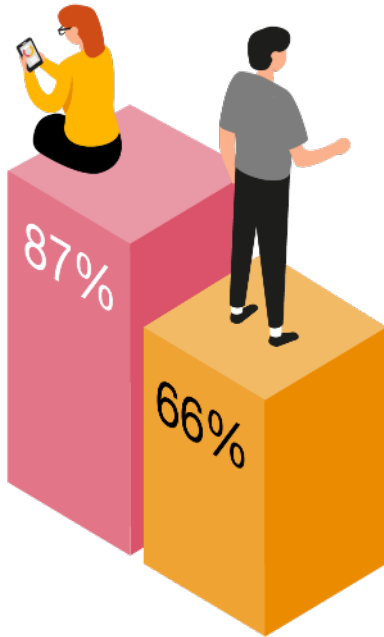
of enterprises have incorporated ESG risks into their risk management and internal control systems



26%

of internal audit functions have been involved in ESG matters

Trend 2: In-depth stakeholder engagement is essential for achieving ESG strategic results and high-quality disclosure



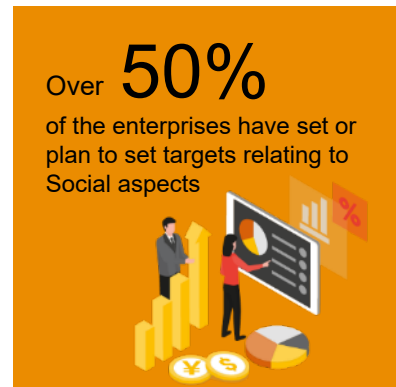
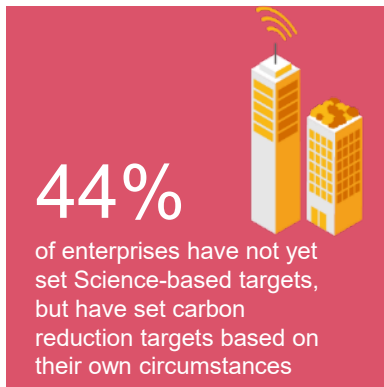
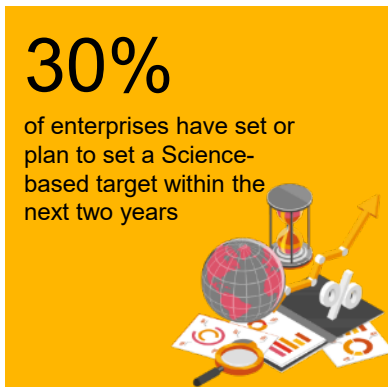
87%

of enterprises consider stakeholder views on key company ESG issues when determining materiality of ESG issues

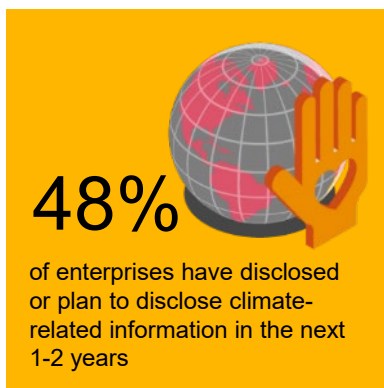
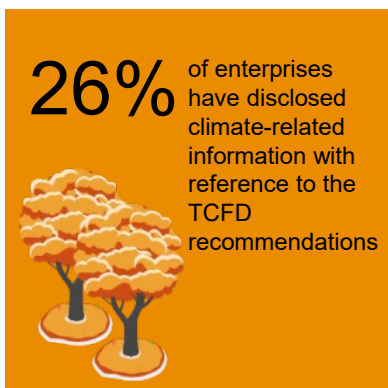
66%

of enterprises cite compliance requirement as one of the top three drivers for their emphasis on ESG implementation

Trend 3: Strengthening management and prioritising targets: enterprises are moving towards a new stage of scientific ESG targets



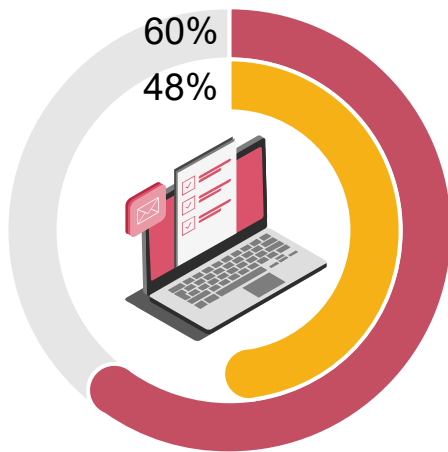
Trend 4: In view of climate change, greater disclosure on enterprises' climate risk response and management





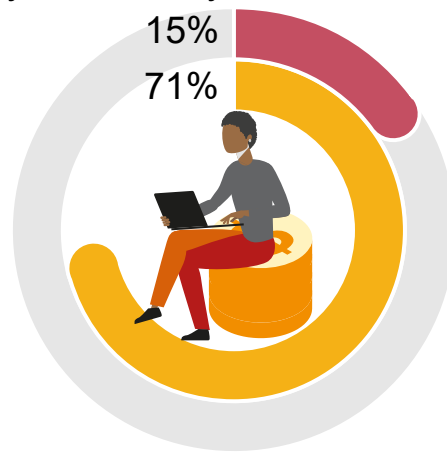
Trend 5: The quality and credibility of ESG data and related disclosures are under unprecedented scrutiny

The top two challenges faced by enterprises when collecting and analysing ESG data are:



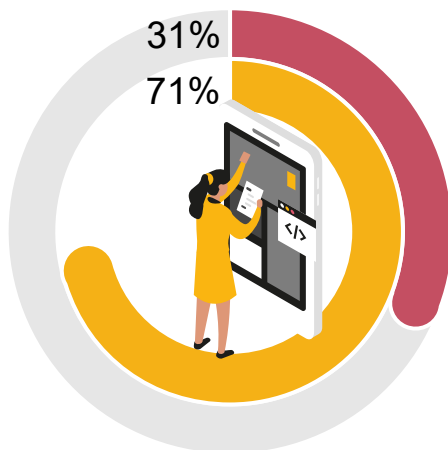
- 60% of respondents believe the workload of data collection is overwhelming
- 48% of respondents believe inconsistent data measurement and boundaries add to difficulties in analysis

In terms of ESG disclosure completeness and transparency, the willingness of enterprises to disclose data on negative sustainability impacts is mainly demonstrated by:



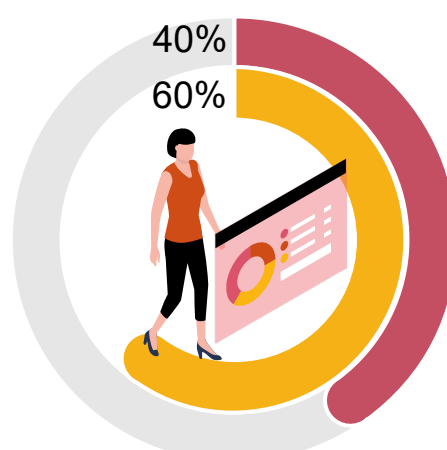
- 15% of respondents show a high willingness to disclose data on negative impacts & drive continuous improvement
- 71% of respondents are willing to make discreet disclosure within the scope delineated by compliance requirements

The attitudes of enterprises towards third-party assurance of ESG reports are as follows:



- 31% of respondents has obtained independent third-party assurance for their ESG reports
- 71% of respondents believe that the assurance of ESG reports is conducive to the quality of reporting

The digitalisation level of enterprises' ESG work are as follows:



- 40% of respondents rely entirely on traditional Excel tools
- 60% of respondents has adopted information technology tools

Trend 6: ESG presents Green Finance opportunities for enterprises

In addition to following the *ESG Reporting Guide* issued by the HKEX, the international frameworks or standards that enterprises mainly apply are as follows:



39%

of enterprises adopt the GRI Sustainability Reporting Standards

30%

adopt the SDGs

25%

adopt the TCFD Framework

The top four ESG indices and ratings with the highest participation or responses are:

48%

of enterprises have participated in MSCI ESG rating



21%

have participated in HSSUS



18%

have participated in Sustainalytics



17%

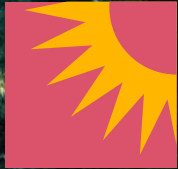
have participated in CDP questionnaires



About **74%**

of the enterprises have expressed interest in participating in green finance in the future





3. In-depth analysis on
companies' sustainability
trends



Trend 1:

Sound ESG governance facilitates the realisation of a company's wider business strategy



Most companies have established or are about to establish ESG strategies

With the rapid rise of awareness on ESG matters, more companies are realising that a robust and effectively implemented ESG strategy can enhance their ability to combat environmental disasters and market shocks, communicate positive quality signals to the market, build social trust, motivate employees, obtain support from stakeholders, enhance financing capabilities, etc. Companies are increasingly focusing on developing ESG strategies and integrating them into corporate strategies to ensure consistency.

A strategy without a plan, timeline or measurable targets is merely a statement of ambition and can hardly be considered a strategy. In the context of a company's wider business strategy, companies should consider what clear and credible targets can and should be achieved through the implementation of ESG strategies over different time frames. Companies should develop short, medium and long-term ESG plans to ensure that, with the support of relevant targets and performance assessments, their ESG strategies are on track to make tangible progress towards their targets.

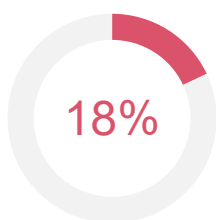


Among the 205 Hong Kong listed companies in this study,

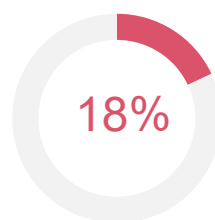
74%

of enterprises already have ESG strategies or plans in place, or have incorporated them into their core business strategies

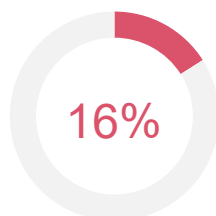
ESG strategy maturity of companies in the study



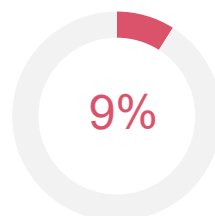
Clear ESG strategies with corresponding action plans are in place, aligned with international standards/trends



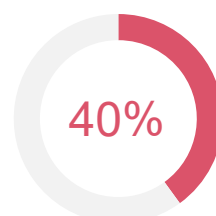
No ESG strategy has been established yet, but the company plans for one to be established in the next 1-2 years



A strategic ESG framework covering the short, medium and long term has been established



No ESG strategy has been established, nor are there any related plan in the next year



ESG issues have been incorporated into the company's core business strategy



Among the 205 Hong Kong listed companies in this study, we found that, compared with ESG strategies, most enterprises moved more rapidly on the establishment of ESG-related initiatives.



95%

have undertaken or plan to conduct ESG related initiatives:



Most popular initiatives include social welfare or public welfare programs (69%) and employee benefit programmes (68%)



Actions in the environmental area have also received attention, including clean energy (49%), green electricity and green electricity certification (31%) and carbon offsets (25%)



42% of companies are developing or considering developing new ESG-related products or services

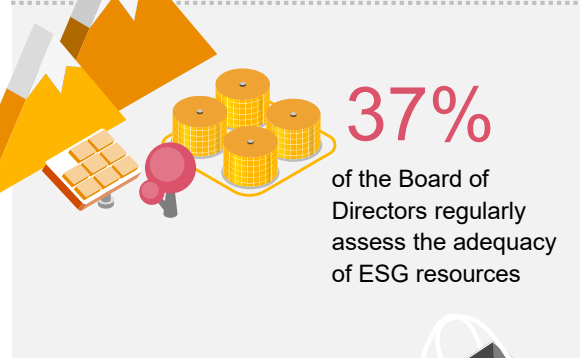
Board scrutiny on ESG matters to be further strengthened

Stakeholders are increasingly demanding a more balanced combination of financial and non-financial information to assess the risks and opportunities associated with ESG matters. The Board of Directors should understand how ESG management and investment trends will affect the company's value, financial capital sourcing and investor relations, and be able to identify the financial implications of fast-changing ESG factors, so as to develop an appropriate risk management strategy. Therefore, the Board needs to examine whether they provide adequate governance on the quality of information reported, including strong top-down governance structures, strategies and processes to ensure the achievement of ESG goals.

Among the 205 Hong Kong listed companies in this study,



The Board of Directors needs to have a firm understanding of ESG and the ability to establish an ESG strategy, build strong ESG risk management mechanisms, review the achievement of ESG goals regularly, meet regulatory compliance requirements and capitalise on potential ESG opportunities.



ESG risk management still has room to grow and mature

In December 2021, HKEX revised the *Corporate Governance Code and the Listing Rules*, with particular emphasis on the need to cover ESG risks in the corporate risk management process and internal control system, and requirement of the Board of Directors to assess and manage ESG risks. It is evident that from a regulatory perspective, enhancing ESG governance through ESG risk management is bound to be a future trend³.

Companies should consider embedding ESG risk management in their risk management processes to assess the impact of ESG on business operations, financial performance and other indicators, which will both increase the rigour and effectiveness of ESG governance and help companies adapt to increasingly stringent regulatory and disclosure requirements. Regular ESG risk management and its integration into the consideration of corporate strategy and target setting will help companies cope with complex and ever-changing scenarios and become an eventual positive solution for companies to realise long-term sustainable development.

As ESG practices mature, internal audit functions can take on a consultative role. They can evaluate and advise on the establishment of ESG governance models, risk management, business process and internal control processes, including assessing effectiveness of the design and implementation of ESG-related internal controls, linking ESG risks to wider company risks, and verifying the completeness and accuracy of data used in ESG reports and disclosures, thereby giving external stakeholders greater confidence on reliability.

On the other hand, ESG risk management includes the identification, assessment, management and reduction of ESG-related risks. ESG risk management should also identify potential areas of focus for the internal audit function to help develop future audit plans to drive more systematic and rigorous ESG governance.



Among the 205 Hong Kong listed companies in this study, less than

10%

have incorporated ESG risks into their risk management and internal control systems in accordance with the proposed amendments to the *Corporate Governance Code* and the relevant articles of the Listing Rules of HKEX.



In December 2021, HKEX published a consultation conclusion on *Review of the Corporate Governance Code and Related Listing Rules*, requiring the Board of Directors and management of listed companies to incorporate ESG risks into the work scope of their risk management and internal control systems, and to review and oversee the execution accordingly. The revised Code and Rules came into effect on **1 January 2022**⁴.



Among the 205 Hong Kong listed companies in this study,

37%

of their internal audit function have already been involved or plan to be involved in the companies' ESG matters.



Generally, internal audit functions can provide professional advice on the following ESG-related aspects:

Policies and processes:

Assess the reporting standards, indicator definitions, process for measuring indicators, process guidelines, and ESG organisational structure, division of responsibilities and authorisation mechanisms, etc.;

Data management:

In consideration of completeness and accuracy, evaluate data collection, quality control, access to the organisation's management process

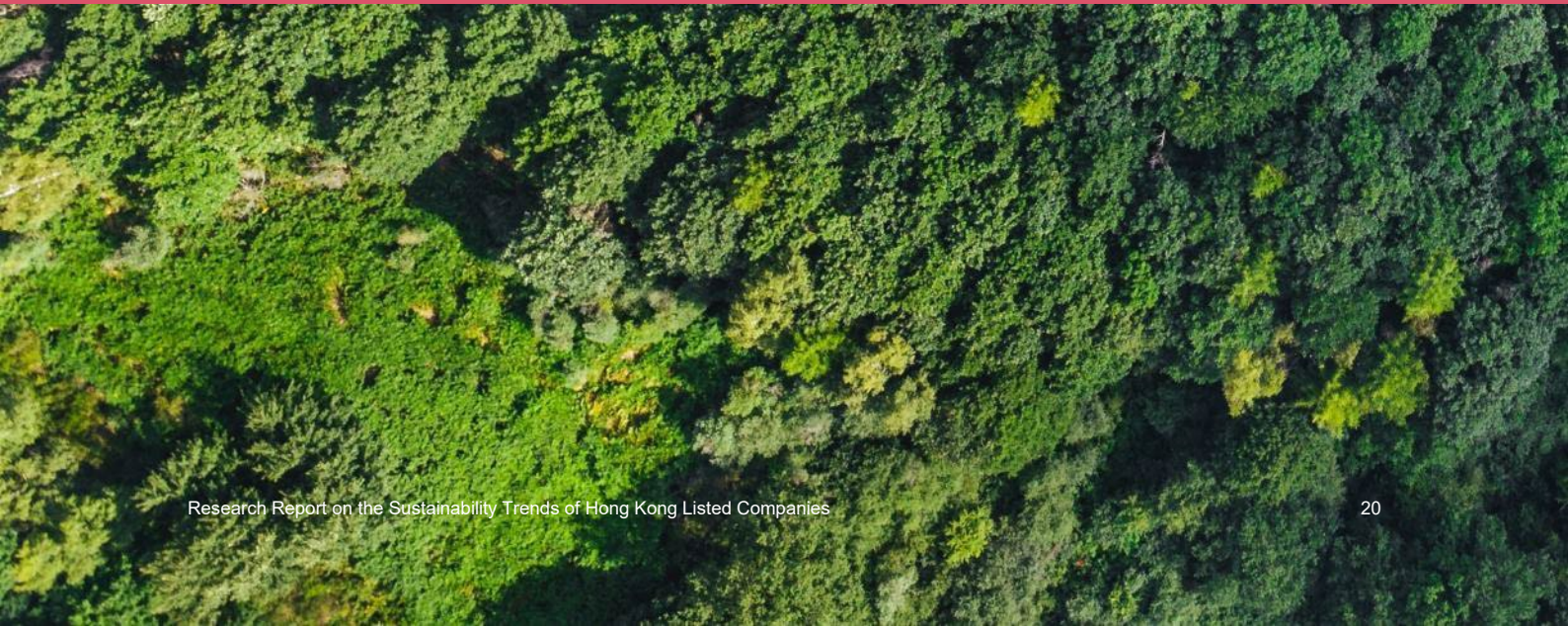
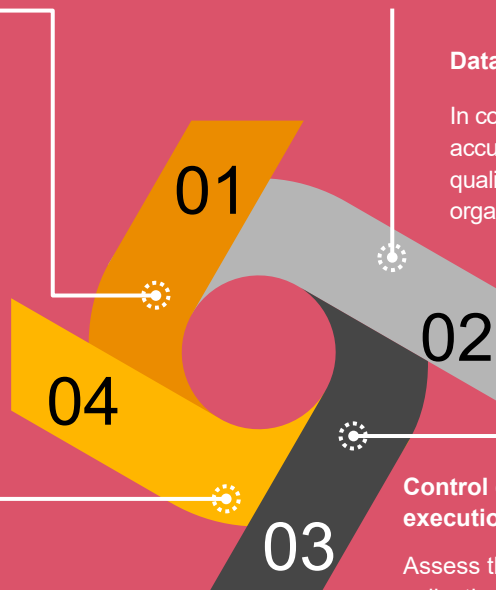
and tools, as well as the inputs, assumptions and methodologies used in analytics and performance indicators;

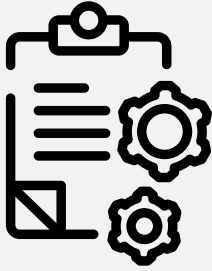
Control design and effectiveness of execution:

Assess the internal controls over data collection, calculation and reporting of ESG metrics, including for management reviews and IT systems;

Integration and disclosure:

Assess the disclosure tools and processes adopted to verify all qualitative and quantitative indicators.





Case study 1

Tencent – ESG Governance Framework⁵

In 2021, Tencent established a new ESG governance structure centred on its long-term vision and mission of "Value for Users, Tech for Good" aiming at continuously improving its ESG governance capabilities, enhancing its abilities to defend against ESG risks and seizing future opportunities, and optimise the company's ESG information disclosure.

01

Tencent's Board of Directors oversees ESG matters with the support of the Corporate Governance Committee and participates in the formulation and facilitation of the company's ESG strategy.

02

In 2021, the Board participated in determining the importance and prioritisation of ESG issues, reviewing key ESG risks and performing revision and making recommendations of the annual ESG Report.

03

With the support of the Board of Directors and the Corporate Governance Committee, Tencent established a cross-departmental ESG Working Group in January 2022.



ESG Steering Team

- Comprised of senior executives across business functions, co-chaired by the Chief Strategy Officer and Chief Financial Officer, leads the ESG Working Group to set the company's ESG strategy and priorities

ESG Coordination Office

- Identify ESG objectives, collaborate across business functions to develop action plans and track progress, regularly reports ESG matters to the Corporate Governance Committee

ESG Champions

- Driving implementation of ESG initiatives through leveraging employee representatives' areas of expertise, with regularly updates to the ESG Coordination Office

Upgraded ESG strategy

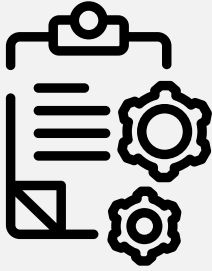
Based on existing internet strategies, Tencent has upgraded its corporate strategy by adding "promoting sustainable social value innovation" to its core development strategy. In addition, Tencent will integrate corporate social responsibility and charitable activities into a new Sustainable Social Value (SSV) organisation. SSV has been funded with RMB50 billion in key areas including rural revitalisation, carbon neutrality, primary healthcare and digitalisation of culture, a further RMB50 billion is slated to support China's "Common Prosperity" initiative.

Launch of carbon neutrality plan

At the beginning of 2021, Tencent announced the launch of a carbon neutrality plan. Based on its own emission characteristics and digital technology advantages, it will formulate emission reduction targets and scientific and effective implementation roadmap.

- **Carbon Neutrality Target:** To achieve carbon neutrality across our operations and supply chain, and to use green power for 100% of all electricity consumed by 2030.
- **Carbon Neutrality Roadmap:** Following the practice of "prioritising the emission reduction and green power while keeping the use of carbon offsets to a minimum", we have three key actions to achieve carbon neutrality across operations and supply chains: improve resource efficiency; increase the proportion of renewable energy use; explore carbon offset schemes and technologies.
- **Boosting Social Carbon Neutrality:** In addition to reaching carbon neutrality across our operations and supply chains, Tencent also integrates low-carbon development into our corporate strategy of "taking root in the consumer Internet, embracing the industrial Internet, and promoting sustainable social value innovation" to mobilise the transition to low-carbon economy and society.

Source: Tencent Holdings Ltd. *Environmental, Social and Governance Report 2021 & Tencent Carbon Neutrality Target and Roadmap Report*

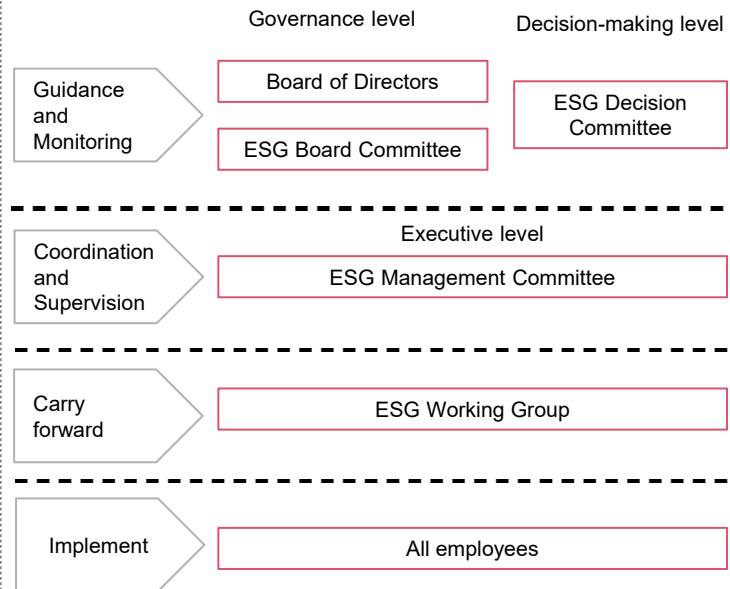


Case study 2

Fosun International – Strengthening the ESG management system⁶

In line with the Group's long-standing business vision, Fosun International has established the ESG vision of "Self improvement, Teamwork, Performance, and Contribution to Society" as overarching principles for guiding the company's ESG management. Since 2019, Fosun has started to build a four-level ESG management structure and continuously improve its internal ESG management system.

To build a strong governance foundation, Fosun continues to establish the ESG committee, ESG decision-making committee, ESG management committee and ESG Working Group under the Board of Directors, set up corresponding ESG performance evaluation indicators, and implement ESG management responsibilities layer by layer.



Fosun International integrates sustainable development factors into their operations by also taking into consideration ESG risks (including climate risks) when devising their risk management framework. The ESG Management Committee regularly reports ESG trends, risks, and opportunities to the ESG Board Committee and ESG Decision Committee. Based on TCFD recommendations, Fosun International has also mapped out physical and transition risks faced by the company and its member enterprises, and formulated countermeasures for key risks identified to enhance climate resilience.

At the same time, Fosun International has continuously optimised the company's ESG information disclosure and communication channels in a holistic manner. The company follows the "Environmental, Social and Governance Reporting Guide" of the Hong Kong Stock Exchange, refers to the international GRI standards, and takes into account various ESG rating considerations to continually improve the disclosure quality of the company's ESG report. Simultaneously, the company has also established an official ESG-dedicated website and an ESG-specific mailbox to enrich the company's ESG information dissemination.

Fosun International has taken the initiative to participate in mainstream ESG rating exercises and continues active management of progress on ESG ratings, actively undergoing benchmarking analysis and management optimisation with relevant departments. Fosun International has achieved outstanding results: an AA MSCI ESG rating; an A Hang Seng Sustainability Index rating, selection as a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index (top 20%) and the Hang Seng ESG 50 Index; a FTSE ESG score that is higher than the global average; a S&P CSA ESG score that exceeds 76% of its industry.



Infographic source: Fosun International Limited. *Environmental, Social and Governance Report 2021*



Summary of study

Trend 1: Sound ESG governance facilitates the realisation of a company's wider business strategy

- The Board of Directors develops ESG strategies consistent with business strategies and oversees management to clearly set and put into practice the expected schedule and measurable targets for implementation of ESG strategies. This will help companies synergise and realise their ESG targets and business targets, control risk impacts, seize opportunities and gain market trust.
- To properly oversee and make decisions on ESG matters effectively, the Board of Directors should examine whether the skill set of board members and employees include ESG skills and how potential skills gaps can be filled.
- ESG risks are broad and complex. Internal risks include risks pertaining to employment and labour, quality, environmental compliance and ethics, while external risks include risks related to climate change response, supply chain and cyber security. To mitigate related risks, the Board of Directors regularly reviews whether the company has adopted an active ESG risk management strategy and taken relevant countermeasures.
- The Board of Directors could consider greater involvement of the internal audit function in ESG matters, with internal audit providing professional support towards corporate policies and processes, data management, accounting and estimation, control design and review, as well as information integration and disclosure.



Trend 2:

In-depth stakeholder engagement is essential for achieving ESG strategic results and high-quality disclosure



Stakeholder interests are broadly incorporated in materiality assessments

Identifying critical ESG issues for businesses is essential for incorporating sustainability into the core corporate strategy. It can help companies prioritise reporting work and support them in risk management and long-term value creation. During the materiality assessment, stakeholder engagement is essential in developing an effective ESG strategy. This can ensure a higher level of completeness of ESG issues and the effectiveness of response strategies. Furthermore, it may help companies prepare ESG reports that respond to and address the issues most concerned by stakeholders, reducing information asymmetry and increasing trust.

When ESG issues considered immaterial by enterprises are excluded from the ESG report, it should be based on grounded stakeholder engagement to ensure that issues deemed important by stakeholders are appropriately addressed. If there are ESG issues that are important to stakeholders but viewed as immaterial by a company, the company needs to provide reasonable explanation for its rationale.



Among the 205 Hong Kong listed companies covered in this study,

87%

have reflected main stakeholders' opinions on ESG issues in determining the materiality of ESG issues.



Stakeholder expectations remain the primary driver of companies' ESG practices

The factors driving ESG practices are changing - though compliance requirements from regulators remain the top catalyst for companies to pay attention to ESG, another driving force is coming from investors and other stakeholders, who are increasingly interested in and have higher demands towards corporate ESG information.

Under the continued impact of global ESG issues such as climate change and COVID-19, concerns and behaviours of stakeholders across the corporate value chain are also changing: stakeholder questions on corporates' ESG performance are increasingly complex, and their expectations have increased significantly. Increased stakeholder expectations and ESG awareness is placing clear pressure on companies to step up their response – for example, net-zero commitments have sharply increased in the past two years. More importantly, the public's views on corporate commitments and statements are no longer surface level. This implies that companies should be upfront with their long-term value creation prospects and how they manage risks. When disclosing and communicating ESG-related strategies, operations and goals, companies must be prepared to come up with meaningful plans, science-based goals and authentic comments, and a more prudent presentation on current practices.



Among the 205 Hong Kong listed companies covered in this study,

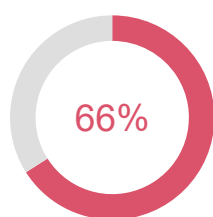
Compliance requirements **66%**

Pressure from investors **65%**

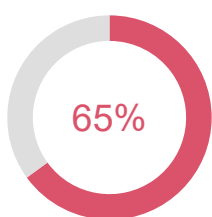
Corporate brand and reputation **55%**

are among the top three factors driving them to emphasize ESG implementation.

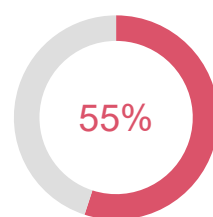
Factors driving ESG implementation



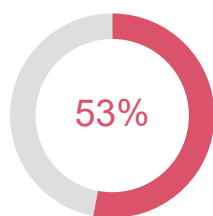
Compliance requirement



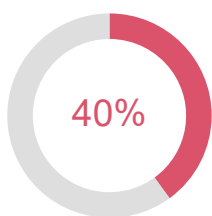
Pressure from investors or beneficiaries



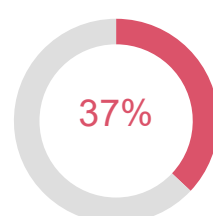
Corporate brand and reputation



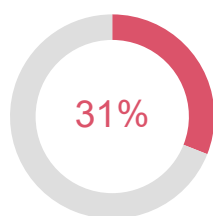
Corporate values



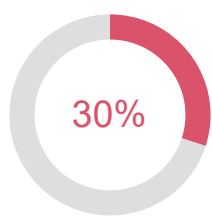
Risk management



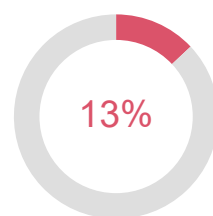
Value creation and promotion opportunities



Financial incentives



Demands of consumers and customers



Market differentiation

Materiality assessment results show industry characteristics

Real estate and construction

- Green building
- Quality of property
- Occupational health and safety
- Corporate governance



Banking

- Green financial products
- Corporate governance
- FinTech
- Inclusive financial service
- Quality of service



Retail

- Quality of product
- Green packaging
- Supply chain management
- Labour interests
- After-sales service
- Corporate governance



Healthcare

- Quality of healthcare service
- Personal information protection
- Healthcare talents retention
- Medical waste treatment
- Corporate governance



TMT

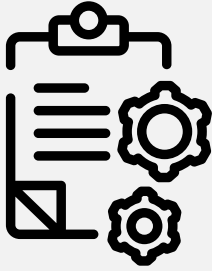
- Data security
- Personal information protection
- Content innovation
- Quality of service
- Use of clean energy in data centre
- E-waste management



Energy

- Energy transformation
- Clean development
- Renewable energy
- Health and safety
- Environment governance





Case study

Country Garden Services – Stakeholder Engagement⁷

Country Garden Services attaches great importance to communication with stakeholders, it strives to create multi-level and highly flexible communication channels, actively listens to the opinions and suggestions of stakeholders, and responds to their expectations in a timely manner. For example, Country Garden Services communicates with investors by conducting domestic roadshows, investor communication conferences, and participating in large-scale online summits organised by investment banks. It also maintains communication with experts from property management industry associations, to discuss latest views on sustainable development and other trends in the industry.

In daily ESG practices such as formulating the company's ESG strategy and goals, and externally disclosing company's ESG information, Country Garden Services also actively invites stakeholder participation, fully considers the opinions and suggestions of stakeholders, and strives to build a cooperative and win-win relationship with stakeholders. For example, in the company's annual ESG report, Country Garden Services took measures to comprehensively understand stakeholder views on key ESG topics through online and offline means, and positively reflected this in the report.

Identify issues

Based on the Group's business characteristics, combined with macro policies, industry trends and disclosure requirements of ESG Reporting Guidelines, a list of issues in four categories, including environment, employment and labour practices, operating practices, and communities, were identified, with a total of 24 ESG material issues.

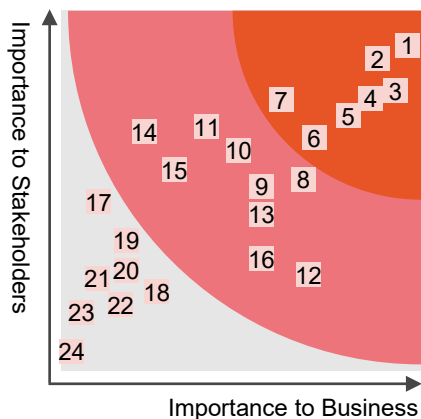
Conduct research

Invited internal and external stakeholders to participate through anonymous online questionnaires, collected scores on the 24 ESG material topics, as well as comments, suggestions and expectations on the Group's environmental and social policies, practices and performance.

Determine importance

Based on the results of the survey, a materiality matrix was drawn from the two dimensions of "impact on stakeholders" and "importance to business", and topics were sorted by importance to determine key points to be disclosed in the report and ways to improve ESG performance in the future.

Materiality Matrix



Ranking of material topics

Importance	Ranking	ESG Issues
Very Important	1	Service Quality and Customer Satisfaction
	2	Satisfaction
	3	Employee health and safety
	4	Integrity culture development
	5	Information safety and privacy protection
	6	Avoiding child and forced labor
	7	Health and safety of products and services
Important	8	Staff promotion and development
	9	Promoting the development of intelligent property service
	10	Promoting community development
	11	Equal opportunities and diversification
	12	Intellectual property protection
	13	Green operation and environmental impact
	14	Public welfare charity and social services
	15	Employee remuneration and welfare
	16	Employee recruitment and team building
	17	Improving energy use efficiency
Less Important	18	Employee benefits and care
	19	Supplier access and monitoring
	20	Smart city construction and ecological balance
	21	Responsible marketing
	22	Supply chain environment and social risks
	23	Saving water usage
	24	Waste management
		Carbon emission and response to climate change

Source: Country Garden Services. *Environmental, Social and Governance Report 2020*



Summary of the study

Trend 2: In-depth stakeholder engagement is essential for achieving ESG strategic results and high-quality disclosure

- The bar for ESG reporting is rising and stakeholders are increasingly paying attention to whether ESG reports include meaningful information on the ESG issues they care about. Therefore, in the process of determining ESG issues, many companies have actively engaged with stakeholders to understand the ESG issues important to think, and consider how this translates and aligns with the company's overall goals and strategies.
- Corporates are being required to generate integrated reports that provide specific ESG indicators and targets, and stakeholder participation plays an important and even leading role in prioritising relevant ESG indicators and setting ESG targets.
- Moreover, integrating ESG implementation strategies into a company's day-to-day operations and in interactions with stakeholders, not only reduces additional information requests from stakeholders, but also helps companies stay ahead and better prepare for regulatory requirements.



Trend 3:

Strengthening management and prioritising targets: enterprises are moving towards a new stage of scientific ESG targets



Regulators have growing demands on setting corporate ESG targets, and investors' attention is increasing too.

In the latest amendments to the Environmental, Social and Governance Reporting Guide and the Listing Rules of HKEX, relevant requirements on setting corporate ESG targets are specified:

- Setting targets based on disclosure scope of environmental KPIs, including:
 - A1.5: Emission target
 - A1.6: Hazardous and non-hazardous waste reduction target
 - A2.3: Energy efficiency target
 - A2.4: Water efficiency target
- The Board needs to explain how it reviews progress against ESG related objectives, and explain the relationship between ESG targets and issuers' business nature.



In addition, investors are increasingly paying attention to corporate ESG goals. Many investors indicate that they consider companies' ESG performance as an important factor in their portfolio selection. Therefore, setting open and executable ESG targets can help companies develop ESG strategies, enhance ESG management and advance ESG action plans, thus satisfying the expectations of investors.

Growing demands on corporate ESG targets from regulators, investors, and other main stakeholders force companies to set ESG targets and improve ESG performance to enhance market competitiveness.

Listed companies reach a consensus on the importance of ESG targets, but more quantitative data and theoretical methods are needed.

- **Companies recognise the importance of ESG targets:** The study indicates that most listed companies are active in the setting of ESG targets. This shows that listed companies are reaching a consensus on the importance of ESG targets and are willing to put efforts into ESG target setting.
- **Improvement of ESG data management is a burning issue:** Setting ESG targets requires better ESG data management of listed companies. Most listed companies lack adequate quantitative databases and approach, without which they could face difficulties in enhancing ESG data management to promote the setting of ESG targets.
- **Methodology to set ESG targets needs to be popularised:** In addition to inadequate quantitative databases, lack of methodology is also a challenge for most listed companies in setting ESG targets.

Summary of the study indicates that listed companies mainly face the following challenges:



57%

of the companies indicate the inadequacy of quantitative data base



53%

of the companies state that they are lack of methodology to set ESG targets



16%

of the companies state that they are not planning to set ESG targets at present due to pressure from financial targets.

Companies take steps in setting environmental targets and exploring setting science-based carbon targets and developing action plan



Among the **205** companies covered by the study:



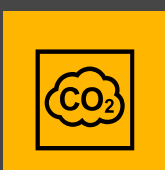
16%

have set science-based carbon targets and developed relevant action plans



14%

plan to set a science-based carbon targets within the next two years



44%

have not yet set science-based carbon targets, but have set carbon reduction targets based on their own circumstances

- The study indicates that most companies have set carbon reduction targets tailored to their specific business situations and status by following clear requirements on corporate environmental targets as specified in the *ESG Reporting Guide*. Among these companies, 16% have set about developing scientific and quantitative carbon reduction targets based on the methodology of the Science Based Targets initiative (SBTi), and 14% have planned to set science-based carbon targets within the next two years.
- SBTi, as the world's first net-zero standard development process for financial institutions, is proposed based on the pledge to “hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels” stated in the *Paris Agreement*. Science-based targets show organisations the extent and speed needed to reduce GHG emissions to prevent the worst effects of climate change ⁸.
- Science-based carbon targets offer companies a more robust way to manage emissions over the long term. Setting science-based carbon targets is beneficial to promoting competitiveness and business innovation in the low-carbon transition process.
- The methodology to set science-based carbon targets is complicated and the sector operation and value chain of companies needs to be considered. Based on effective carbon statistics and management, companies should plan the process of setting targets and encourage stakeholders to engage in each stage, to finally set verified Science-based targets that conform to standards.



Roadmap of setting carbon targets

Qualitative - directional target

- Given the lack of database and explicit methodology, companies may set directional targets at the beginning of carbon reduction to direct the practice of energy conservation and environmental protection in business development, and then set quantitative targets gradually when they have accumulated adequate performance data.

Quantitative - S.M.A.R.T.

- Companies having no experience in setting science-based carbon targets may choose to set short-term S.M.A.R.T. (**specific, measurable, achievable, relevant, and time-bound**) targets referencing the methodology in the How to Prepare an ESG Report of HKEX⁹. S.M.A.R.T. targets are bottom-up targets, based on analysis on the GHG emission reduction potential of the value chain and identification of all practical actions.

Quantitative - Science-based carbon targets

- Companies with certain experience in setting quantitative carbon reduction targets are advised to set science-based carbon targets in line with SBTi standards. Science-based carbon targets are with approaches penetrated from top to bottom, which means that progress of targets is standalone from GHG emission reduction potential and action plans of companies, and requires more investments. Roadmap of setting science-based carbon targets is as follows:

01

Determining emission limits and selecting accounting method

02

Accounting historical emissions and determining base year

03

Predicting emission reduction scenarios

04

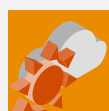
Selecting emission reduction means and setting target achieved year

Roadmap of carbon reduction actions in response to the national call of “carbon neutrality” goal

At the general debate of the 75th Session of the United Nations General Assembly on 22 September 2020, President Xi Jinping made a solemn commitment to achieving peak carbon emissions and carbon neutrality to the international community. China will:



Strive to peak CO₂ emissions by 2030



Achieve carbon neutrality by 2060

In addition, pursuant to the latest *Emissions Gap Report* released by the UN Environment Programme, more than 120 countries or territories have made commitments regarding carbon neutrality, of which many have proposed schedules and measures to achieve the target¹⁰.

The realisation of the national carbon neutrality goal depends on efforts of enterprises and people from all walks of life. Regulations, financial actions and other plans in support of the carbon neutrality goal will exert predictable impacts on companies, including incentives and punitive measures. Therefore, companies should figure out their own carbon emissions in advance and identify the applicable carbon reduction route to seize opportunities in the low-carbon transition.

Companies may refer to the following steps to set carbon neutrality targets:

Carbon accounting

01

Generally, the coefficient method is used for carbon emissions accounting with reference to *GHG Protocol and Specification with Guidance for the Verification and Validation of Greenhouse Gas Statements* (ISO 14064).

Predicting and setting targets

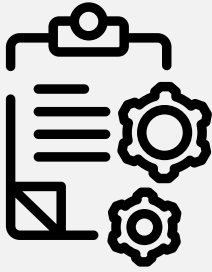
02

Companies, based on their business development plans and historical carbon emission data, should identify the progressing room for carbon reduction, the time and resources needed, and then set carbon neutrality targets.

Measures

03

Internal operations: optimise energy efficiency and increase the use of renewable energy in the course of operation, design sustainable and green products and advocate green offices;
Collaboration across the value chain: assist the decarbonisation of supply chains, adopt sustainable downstream logistics services and promote products and services the assist the decarbonisation of other industries



Case study

Master Kong — Environmental Goal Setting and Carbon Accounting¹¹

In 2021, Master Kong upgraded the original Corporate Social Responsibility Committee to the Sustainable Development Committee, with the chairman and CEO of the company serving as chairmen, and members of the Business Development Committee serving as members. Master Kong adheres to the sustainable development vision of “Evergreen Home, Blessedly Grown”, sets environmental goals based on the actual situation of its own production and operation, continuously monitors the progress of achieving environmental goals, and regularly reviews and reports the completion of environmental goals.

Master Kong actively responds to the national “dual 30·60 carbon goals” strategic goal and has carried out energy conservation, carbon reduction and emission reduction work in various fields, achieving remarkable results. In order to better understand its own carbon emissions, Master Kong applies the internationally authoritative Life Cycle Assessment (LCA) method based on general standards such as the National Development and Reform Commission and the IPCC National Greenhouse Gas Emission Inventory Guidelines. By conducting carbon accounting in the upstream and downstream of the value chain, Master Kong comprehensively calculates the carbon emission data of Scope 1 and Scope 2 and determines the main Scope 3 carbon footprint in the upstream and downstream of the value chain, laying an important foundation for the subsequent formulation of carbon reduction targets. In the future, Master Kong will continue to carry out targeted carbon emission reduction work in key carbon emission areas based on the actual situation, and gradually plan the implementation path of carbon reduction.

Energy and water consumption targets:

- Taking 2017 as the base year, the comprehensive energy consumption per million yuan of revenue (ton/million yuan) will decrease by 12% in 2025;
- Taking 2017 as the base year, the water withdrawal per million yuan of revenue (ton/million yuan) will decrease by 8% in 2025.

Waste target:

- The recovery rate of main production raw material waste (actual sales volume/theoretical production volume) is not less than 97%.

Emissions target:

- The COD in the waste water meets or exceeds the national standard;
- The emission concentrations of major air pollutants (nitrogen oxides, sulfur oxides, and soot) in all factories meet or exceed national standards.

Carbon Emission Target:

- Taking 2017 as the base year, greenhouse gas (Scope 1, Scope 2) emissions per million yuan of revenue (tons per million yuan) will decrease by 18% in 2025.

Source: Tingyi (Cayman Islands) Holding Corp. 2021 Annual Report

Among the ESG issues, social issues are attracting more and more attention, and it is a future trend to set ESG targets.

As social ESG issues such as occupational health and safety, community engagement, supplier environment and social risks have become frequently-discussed topics, HKEX has further raised the requirements for the disclosure of social issues, propelling listed companies to move forward with the agenda of setting ESG targets.

According to the study, of the companies that have set targets, most have merely set guiding targets and only a few have set quantitative targets based on their prioritised social issues;



Of the **205** companies covered by the study:



Over **50%** have set or are planning to set social targets





Study summary

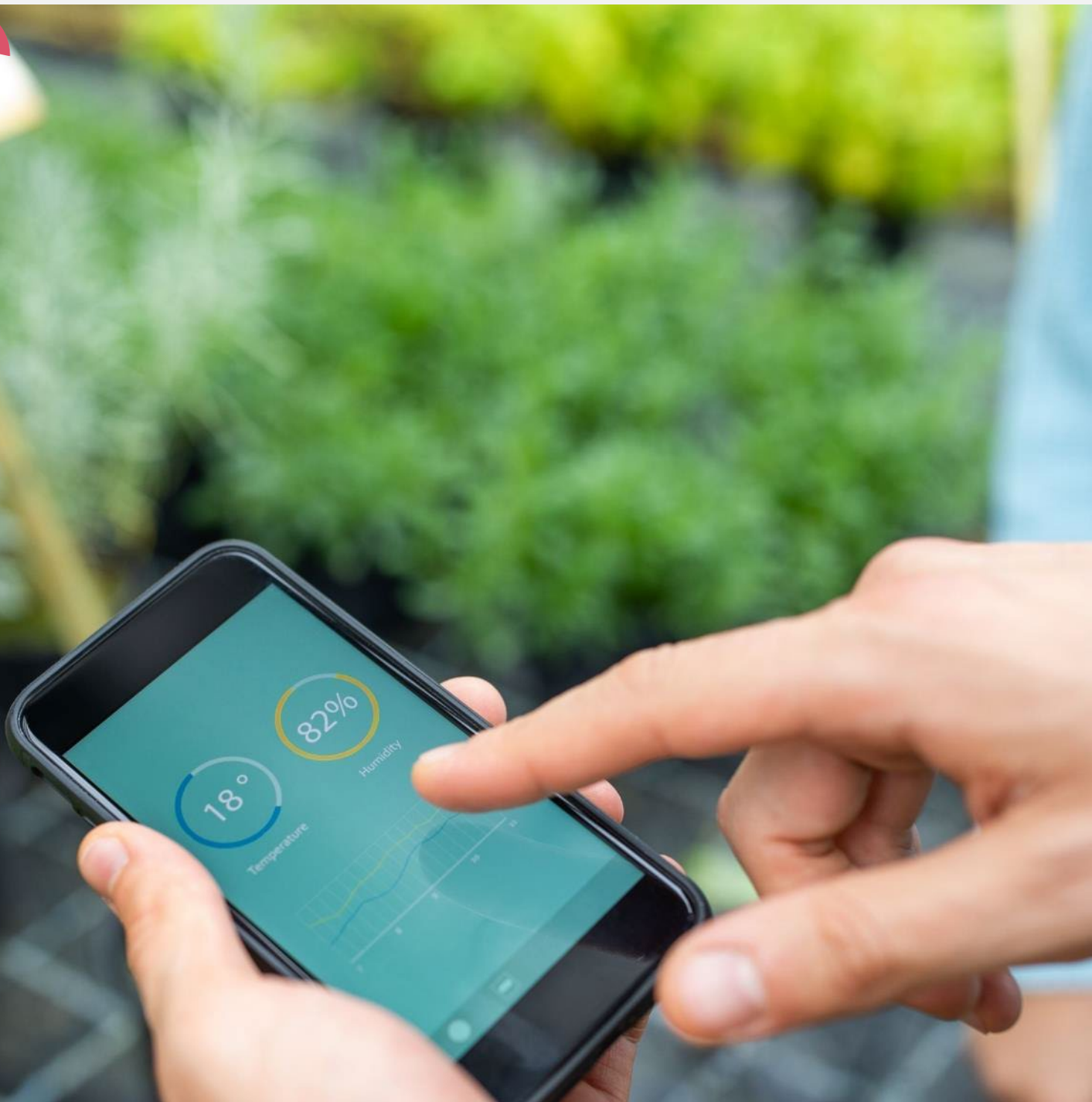
Trend 3: Strengthening management and prioritising targets: enterprises are moving towards a new stage of scientific ESG targets

- As stakeholders pay more attention to ESG issues, it has become an irreversible trend to set ESG targets. Listed companies have realised the importance of setting ESG targets for their sustainable development, but they still need to enhance their management of ESG data and accumulate theoretical knowledge, and then set reasonable and feasible ESG targets based on their own conditions.
- Listed companies could consider setting qualitative and quantitative targets based on their own business conditions as well as material environmental and social issues to effectively improve internal management of ESG. In doing so, they can better respond to expectations of exchanges, regulators, investors and other stakeholders with respect to corporate ESG management, and grow together with stakeholders in the course of business.
- China's "30·60" decarbonisation goal has set the trend for enhanced corporate energy conservation and emission reduction. Companies should therefore conduct comprehensive studies on their carbon emission, identify suitable carbon reduction pathways, and designate energy conservation and emission reduction targets, so as to facilitate their low-carbon transition and firmly grasp emerging opportunities in the "dual 30·60 carbon goals" era.



Trend 4:

In view of climate change, greater disclosure on enterprises' climate risk response and management



Climate change draws international attention, relevant reports are released one after another



Climate change, the top risk:

On 11 January 2022, the WEF released the Global Risks Report 2022, which showed that over half of the ten most severe global risks in the next decade would be ESG-related risks, and **adverse climate action** and **extreme weather** ranked first and second respectively, becoming the two most severe risks in the next decade. The most important long-term risk faced by humanity is related to climate. The failure to address climate change could reduce global GDP by one sixth¹².



Call for active global response:

On 4 April 2022, the IPCC officially released *Climate Change 2022: Mitigation of Climate Change*, which highlighted the importance of mitigating global warming, assessed the latest progress and commitments made by countries around the world in mitigating climate change, as well as the impact of those commitments on long-term emissions targets¹³.



Great importance to climate change attached by China:

As the largest developing country in the world, China attaches great importance to addressing climate change. In 2021, China released a report and white paper, *Responding to Climate Change: China's Policies and Actions*, which introduced China's progress, strategies, measures, actions and achievements in addressing climate change¹⁴.

Listed companies have reached a consensus on the response to climate change in the crisis of climate change

According to the 205 companies, their decision to disclose climate change-related information is driven by the following factors:

76%

of the companies refer to the current or upcoming regulations from regulators



45%

of the companies are aware of the importance of climate risk to business development

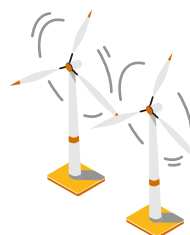
42%

of the companies show commitment to investors' concerns



37%

of the companies are aware that their peers have already been disclosing climate change-related information

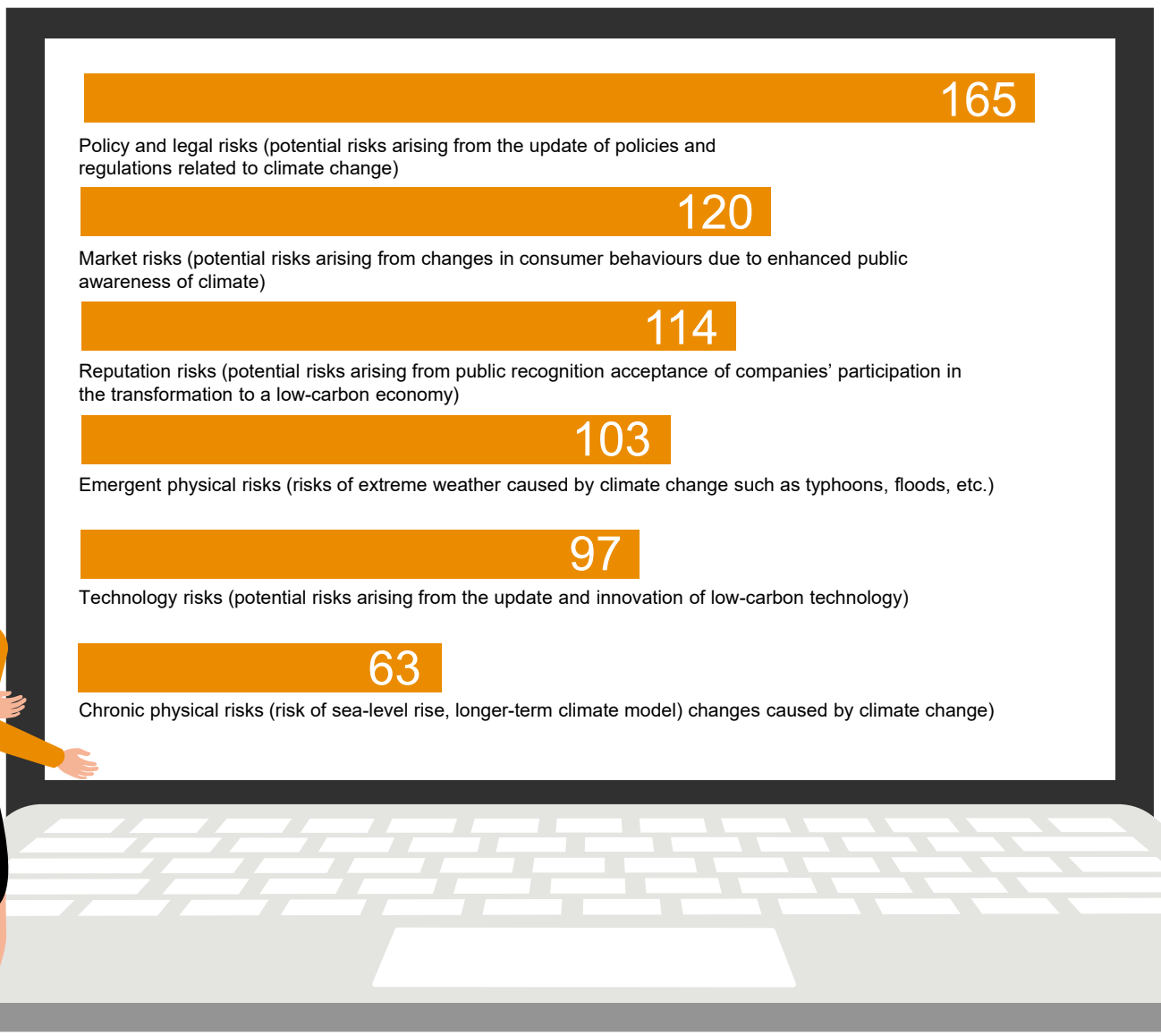


- **External drivers:** According to the study, over half of the companies' decision-making over climate-related disclosures is affected by the relevant regulations of regulators and the expectations of investors. Driven by these external factors, listed companies have gradually developed awareness of addressing climate change risks.
- **Internal drivers:** In addition to external factors, nearly half of the companies have also recognised the importance of the risks and opportunities brought by climate change to their sustainable development, so they have enhanced the disclosure of climate change-related information.
- **Industry consensus:** Meanwhile, the extent of the attention paid by companies to climate change-related issues varies with the industry in which they operate. The disclosure of climate change-related information by industry-leading companies drives the development of the entire industry and promotes climate action of the industry in a collaborative manner.

In the face of the “grey rhino”, a metaphor of the climate crisis, it is a task of top urgency to correctly identify and assess risks and take effective actions. In this international context, and influenced by the above-mentioned factors, more and more listed companies have **begun to identify the risks and opportunities brought by climate change.**



- The survey results indicate that listed companies pay more attention over physical risks to the risks arising from transformation such as policy and legal risks, market risks and reputation risks.
- **165** out of the **205** companies covered by the study are most concerned about the potential risks brought by the update of policies and regulations related to climate change.



TCFD recommendations assist enterprises in the management and information disclosure with respect to climate change risks

As importance and attention are increasingly attached to climate change-related issues, the financial market has an increasing demand for climate change-related information, and an international discourse system of climate change-related information is gradually established, propelling listed companies to gradually adjust their strategies and business models to cope with climate change, assess and manage the climate change risks and related impacts, and develop their climate response strategies and performance in a systematic language.

TCFD assists the world-wide practices of climate risk information disclosure:



In December 2015, the FSB led the establishment of the TCFD, which aims to implement the requirements of *The Paris Agreement* and providing the recommendation on the work of climate-related financial disclosures¹⁵. TCFD's pace has been accelerating since 2020, with a number of supplementary guidelines in different aspects formulated, including for risk management, scenario analysis, climate-related indicators and targets; and statistical analysis is carried out on an annual basis on the implementation of global TCFD recommendations and corporate disclosures, with annual status report released.

TCFD recommendations to be incorporated into ESG reporting standards:



International organisations such as SASB, CDP, CDSB, and IIRC will incorporate TCFD-recommended indicators into the model of climate-related financial disclosure standards.

Domestic and overseas institutions and organisations have announced their support for the TCFD recommendations:



As of April 2022, the TCFD official website showed that more than 3,300 institutions and organisations around the world have announced their support for the TCFD recommendations. In China, since 2015, with the gradual development of climate-related financial disclosures and the implementation of pilot projects, TCFD recommendations have gradually gained support from governmental departments, regulators and enterprises in various industries. As of April 2022, a total of 170 companies in China have announced their support for TCFD's recommendations to jointly promote the practice of climate change disclosure¹⁶.

Enterprises gradually conduct systematic assessment and information disclosure with respect to climate change

Regulators pay close attention to the latest domestic and overseas trends and continuously improve the requirements for the disclosure of corporate climate change-related information.

The HKEX ESG reporting guidance has added "A4 Climate Change" mandatory disclosure requirements, requiring companies to disclose climate change-related policies, major climate-related matters and response, and the relevant requirements have already been put into effect officially; and the *Guideline for Climate-related Information Disclosure* has been officially released as the enhanced guideline for the newly-added issue of "A4 Climate Change" in the new ESG regulation, which stipulates that the relevant disclosure requirements will be enforced by 2025, then relevant industries will be compulsorily required to disclose the TCFD report¹⁷.

Of the 205 companies covered by the study:

26%

of the companies have disclosed climate-related information with reference to the TCFD framework



48%

of the companies have disclosed or plan to disclose climate-related information in the next 1-2 years

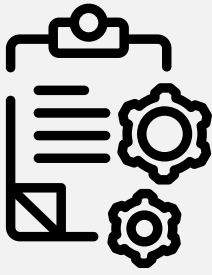
24%

of the companies have conducted systematic assessment of climate change risk



45%

of the companies have had their relevant functions conduct assessments and develop contingency plans for specific climate change risks



Case study

Towngas Smart Energy — Climate Change Information Disclosure¹⁸

Towngas Smart Energy refers to and implements the recommendations of TCFD, and conducts climate risk assessment and climate information disclosure within the group; the 2021 ESG report explains the company's work process in climate change governance, strategy, risk management, goals and practices:

Governance & Strategy

- The company integrates climate change-related issues into the group's existing ESG governance system for unified management, and the Board of Directors and the ESG committee undertake climate change monitoring and management responsibilities.
- Carry out a comprehensive climate risk assessment, and identify four climate scenarios based on changes in international and national policies, as well as current scientific and technological innovation and application practices.

Risk Management

Strategies, sector-specific strategies and action strategies for identified climate risks and opportunities:

- For physical risks, fully assess the impact of regional climates when deploying operating assets, and formulate emergency measures for potential extreme weather events;
- In response to transition risks, risk identification is carried out from the four dimensions of market, technology, policies and regulations, and reputation; new and alternative technologies for energy conservation and emission reduction are promoted, clean energy is purchased, and a series of special carbon reduction actions are formulated.
- Actively seize climate opportunities, provide customers with low-carbon products and services, and promote clean energy transition for customers.

Metrics & Goals

- Comprehensively sort out the energy consumption structure of operations, monitor the quantitative indicators of greenhouse gas emissions, and actively explore and plan carbon emission reduction goals and action plans.
- In 2021, a total of 100 green energy comprehensive service projects will be completed, more than 110 renewable energy projects will be deployed, and 32 zero-carbon smart parks will be developed.



Pay close attention to the development of national policies, pay attention to the dynamics of the clean energy market, continuously improve its own smart energy business layout, promote consumer education and brand promotion related to sustainable development, and facilitate the transformation and development of the energy structure.

Source: Towngas Smart Energy Company Limited. *Environmental, Social and Governance Report 2021*





Study summary

Trend 4: In view of climate change, greater disclosure on enterprises' climate risk response and management

- As the risks of global climate change increase and importance and attention become increasingly attached to climate change-related issues, listed companies have begun to reach a consensus on their response to climate change, examine the risks and opportunities brought by climate change, and adjust their strategic and business modes in order to accommodate a society impacted by climate change with gradual steps and embrace the disclosure of climate-related information with reference to frameworks such as the TCFD's.
- As the international discourse power of climate change is establishing itself steadily, listed companies are also actively engaging in the disclosure of climate-related information with reference to frameworks like the TCFD to meet the demands of various regulatory and financial authorities.
- Meanwhile, listed companies have started to carry out substantive climate risk identification and assessment, incorporate climate risks into their corporate risk management systems, and conduct both consolidation and enhancements on climate governance structures, strategies and performance to better the management of climate-related risks and opportunities.



Trend 5:

The quality and credibility of ESG data and related disclosures are under unprecedented scrutiny



There are many challenges and difficulties for companies to collect and analyse ESG data

As ESG reporting has become one of the main trends in the global capital markets, more and more attention has been mounted on the concept of ESG investment, and the quality of ESG data has become increasingly important. Investors need ESG indicators for determining investment portfolios in order to mitigate the risk of investment portfolios; companies need to improve the basis of ESG data collection and analysis and establish ESG indicator systems to improve the quality of ESG data disclosed, enable data-based ESG target setting and disclosure of “Carbon Footprint” and contribute to the continuous improvement of ESG management.

Without a well-established process of internal ESG data collection, inter-department manual data collection will reduce the efficiency of data collection and result in unstable data quality, which is a challenge especially for companies with complex revenue sources and multiple sub-departments. Meanwhile, the inconsistent statistical calibre of ESG data will result in the inconsistency and incomparability of the data and reduce the efficiency of ESG management.

In order to improve the quality of ESG data disclosure, companies can seek more effective methods to solve the difficulties that hinder ESG data collection and analysis, such as realising the intelligent management of ESG data and information through ESG digital tools; in addition, independent third-party assurance could be obtained for ESG data to systematically sort out the existing problems of corporate ESG management and mitigate related risks.



According to the study, approximately

60%

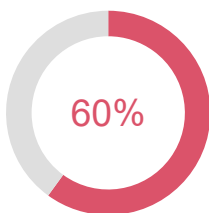
of the companies think that data collection is heavy in terms of workload;

approximately

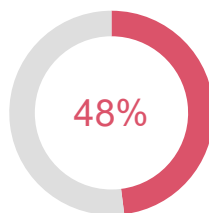
48%

of the companies think that different data calibres and boundaries create difficulties for analysis.

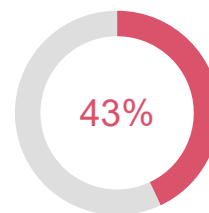
Major challenges or difficulties for ESG data collection and analysis facing companies (detailed study results):



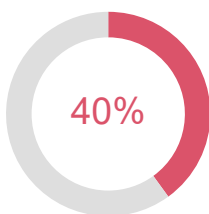
A great deal of effort needed for data collection



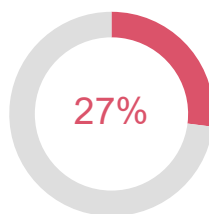
Difficult to analyse due to inconsistent data calibres and boundaries



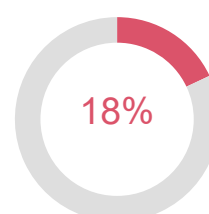
Ambiguous responsibility definition for data collection and reporting



Data sources untraceable and difficult for analysis



Frequent misstatements and omissions



Poor continuity of data across reporting periods

The completeness and balance of ESG information disclosure needs to be improved

Regulators continuously improve the requirements for the disclosure and daily management of corporate ESG information. More and more investment institutions incorporate corporate ESG performance into their investment decisions, making corporate ESG performance and management capabilities one of the focuses of attention for stakeholders. Companies with insufficient ESG information disclosure or poor performance will struggle to attract investors. In the meantime, their market value and investor relations will also be adversely affected.

To date, the policy for the disclosure of ESG information in China is still unclear. The contents disclosed, as well as the standards for disclosure and data statistics, might vary among different companies. Companies that choose to disclose data rarely disclose negative information, and the transparency and readability need to be improved.

Pursuant to the ESG Reporting Guide issued by HKEX, materiality, quantification, balance and consistency constitute the basis for corporate ESG report preparation, and companies "should present the performance of the issuer in an unbiased manner and avoid possible choices, omissions, or presentation formats that inappropriately influence the decisions or judgements of readers of the report."



The study indicates that approximately

71%

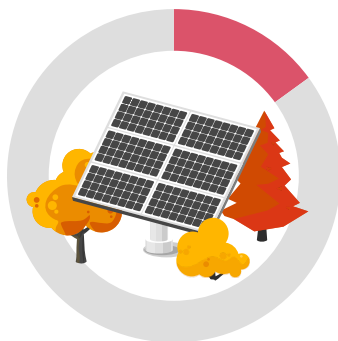
of the companies are inclined to adopt a prudent approach to negative ESG indicators to such an extent as is stated by the compliance requirements;

approximately

15%

of the companies are very willing to disclose their negative indicator data and continuous improvement actions. It can be observed that the ESG data disclosed by the majority of the companies merely meets the basic compliance requirements, but they do not willingly disclose additional ESG information, so that limited ESG information is available to the external parties.

Willingness of companies to disclose data on negative indicators (detailed study results):



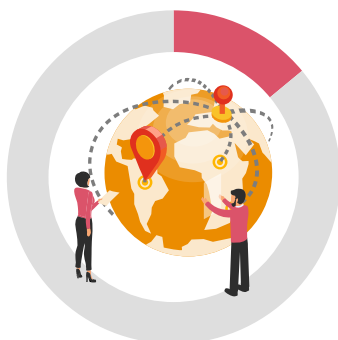
15%

The willingness to disclose data on negative indicators and continuous corporate improvement actions is strong



71%

Discreet disclosure within compliance requirements



14%

Unwilling to disclose

Weight is increasingly attached to third-party assurance of ESG reports to improve the quality of ESG data

At present, most listed companies fail to obtain assurance over ESG report. The important reason is that there are no mandatory regulations in this regard, and few companies are aware of it. However, the *ESG Reporting Guide* issued by HKEX, which came into effect on 1 July 2020, has for the first time proposed to encourage issuers to obtain third-party assurance over ESG reports to improve the credibility of the reports. Based on historical experience and current trends, listed companies are likely to be required to obtain third-party assurance over ESG information in the future to ensure the authenticity of ESG information.

By obtaining assurance over ESG reports, listed companies can grasp the disclosure calibre of ESG data, judge the implementation of ESG management measures, and find out loopholes and risks in the current management system, so as to optimise the collection and analysis of ESG information and continuously improve ESG management system and ESG risk management.



The study results indicate that approximately **31%**

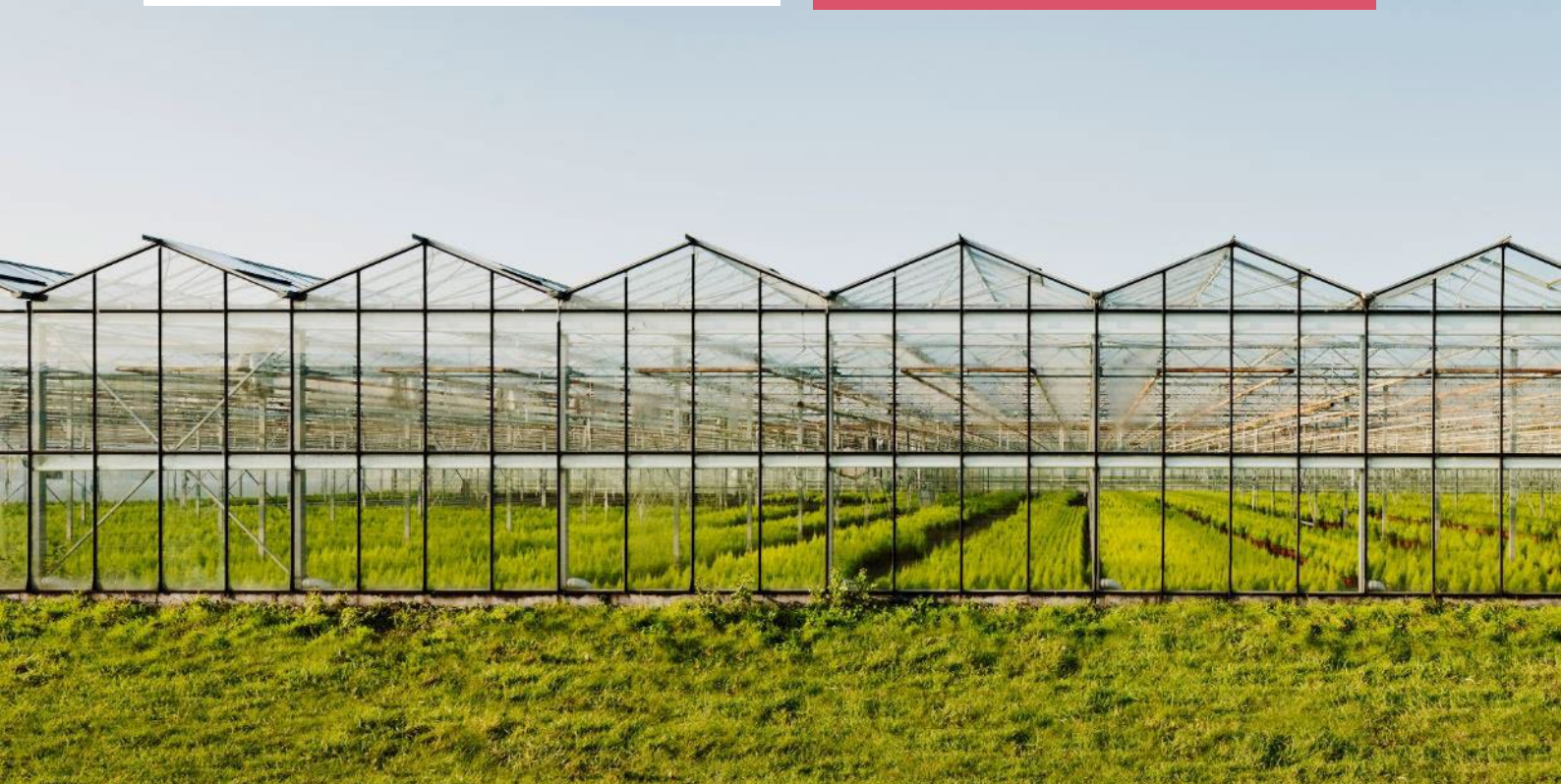
of the companies have obtained independent third-party assurance over their ESG reports;

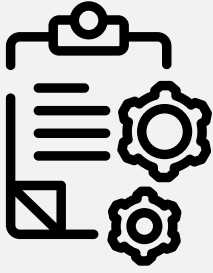
approximately **37%**

of the companies said that they would consider seeking third-party assurance over their ESG reports in the future;

at the same time, approximately **75%**

of the companies consider assurance helpful to improve reporting quality and enhance public confidence in ESG reports.



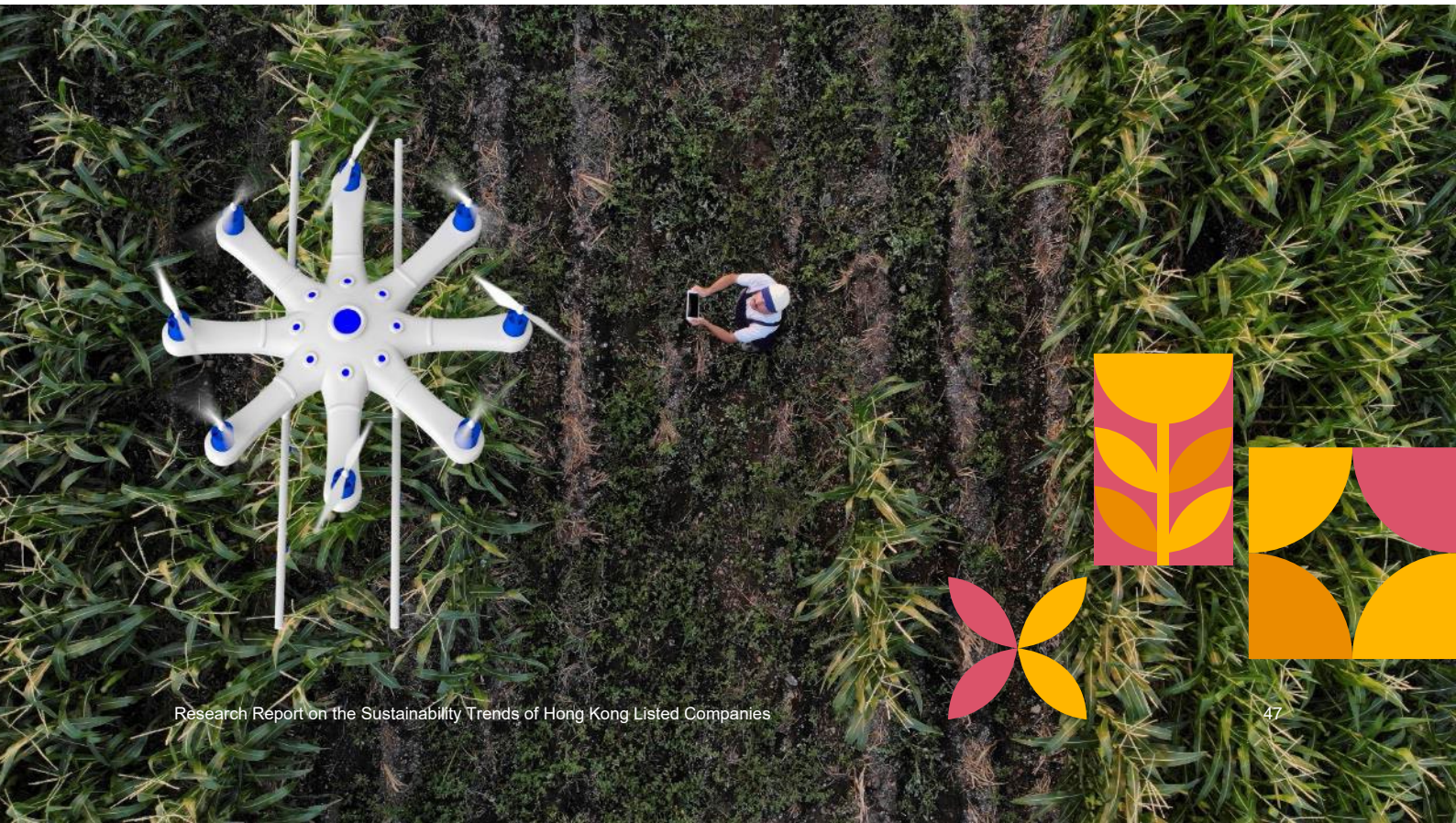


Case study

AIA – ESG Report Assurance

AIA continually seeks to enhance their ESG reporting to ensure that it is in line with disclosure requirements and meaningfully portrays their ESG performance and aspirations to our stakeholders, with the goal of producing accurate, complete, and timely ESG information. In 2022, they augmented their existing reporting processes in three main areas: more distinct ESG reporting governance, enhancement of data controls, and making incremental improvements within the report. On governance, a new steering committee consisting of their senior leadership was formed with the exclusive remit to review, give feedback on, and endorse the ESG report, a precursor to obtaining Board approval. Given the expanding scope and breadth of information captured and disclosed, AIA has also revamped their data verification processes with the objective of having this process be more comprehensive yet more efficient and nimble. With regards to data controls, AIA has begun a journey of identifying, assessing, and managing the key controls

supporting the ESG data reporting process, and has engaged an external third party to opine on the design of these controls, where recommendations will be considered and implemented in due course. Within the report itself, a number of features were upgraded, including a more thorough materiality assessment and stakeholder engagement process, clearer linkages of their most material issues and ESG Strategy to SDGs, and as mentioned before, more transparent disclosure of certain targets and metrics which will allow stakeholders to hold AIA accountable for better ESG performance. Finally, they extended the scope of assured data to cover a higher proportion of their business units and premises to give the readers of their ESG report even greater confidence that the information contained within the report is reliable.



The level of ESG management digitisation is below-average, as digital tools become increasingly important for this purpose

As regulators are gradually imposing more stringent requirements for ESG information disclosure on listed companies, international institutional investors are increasingly concerned about the ESG performance of Chinese companies, the standardisation and digitalisation of ESG management are gradually welcomed by major companies. Meanwhile, at the national level, the Chinese government encourages enterprises to promote and implement the green and digital transformation that features high-quality development to meet their needs for ESG-related issues, such as sustainability reporting, carbon management, compliance and risk management.

Traditional ESG information collection is usually done through office software, with emails containing the information exchanged and other channel flows between the filling and reviewing staff, making ESG information completion, confirmation and management cumbersome and inefficient. In addition, the high reliance on manual processes may lead to certain oversights and errors, making it difficult to ensure a comprehensive, complete and accurate collection of ESG information¹⁹.



The study results indicate that about

40%

of listed companies have still relied entirely on traditional Excel tools for ESG data collection and processing; and about

60%

have adopted information technology tools to manage and collect ESG data, including ESG reporting tools, internal QA systems, and software for environment occupational health and carbon emission management.



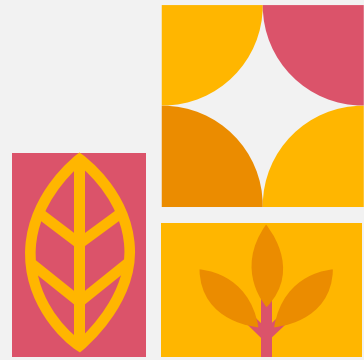
With the assistance of ESG digital tools, we could monitor and track ESG performance in real time to automate and visualise ESG information management, thus improving the authenticity, accuracy, integrity and timeliness of data. At the same time, the ESG digital tool is conducive to unifying data and simplifying inter-departmental communication, coordination and workflow; it can also help management understand potential ESG risks through in-depth data analysis and peer comparison, thereby providing stronger support for decision making.



Study summary

Trend 5: quality and credibility of ESG data and related disclosures are under unprecedented scrutiny

- As ESG becomes a mainstream factor of the market, large institutional investors will reconsider the ESG performance and value enhancement opportunities of the companies in their portfolios; the market will continue towards more sustainable investing strategies; more stringent ESG disclosure requirements will also be employed on the regulatory level. These trends all help push forward the sustainable development for the industry and corporates.
- In view of more stringent ESG disclosure requirements and increased quality in stakeholders' ESG disclosure, companies are required to continuously refine their ESG management (including the quality of ESG data) through applying digital tools.
- With the credibility of ESG reports under unprecedented scrutiny, companies should consider independent third-party assurance of ESG reports when appropriate to enhance the credibility and transparency of ESG data and information disclosure.



Trend 6:

ESG presents Green
Finance opportunities
for enterprises



ESG factors have been widely incorporated into investors' decisions in investment

ESG investment is also known as responsible investment. The UN PRI formally launched six principles as early as April 2006, setting out requirements for the application of ESG concepts in the investment process, hence, joining the UN PRI means following these principles of responsible investment.

Six Principles of PRI

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

Principle 6

We will each report on our activities and progress towards implementing the Principles.

In recent years, both the number and assets under management of global PRI signatories have risen significantly. The number of Chinese PRI signatories have grown from 4 in 2017 to 84 in 2021, according to official data from UNPRI.

During the period from 31 October to 13 November 2021, the COP26 to the *United Nations Framework Convention on Climate Change* was held in Glasgow, UK. At COP26, the GFANZ announced that it had more than 450 financial institution members from 45 countries, with the total assets reaching USD 130 trillion. According to the Alliance Declaration, these financial institutions have committed to reorienting their investment activities towards a transition to net zero emissions and will endeavour to deliver USD 100 trillion of capital needed for net zero over the next 30 years.

ESG investment is aligned with regulatory policies in China: Conceptually, environmental factors focus on the impact of business activities on the environment, which is in line with China's green development philosophy and goals to achieve peak carbon emissions and carbon neutrality. In the context of the dual goals and the concept of green development, ESG investment has been valued by the governments, regulators, etc. In terms of policy development, the Hong Kong stock market takes the lead while the A-share market begins to emerge, especially with regards to the green investment and green financial system related policies introduced in recent years. As financial support and green upgrading for a number of low-carbon and energy-efficient technologies are quintessential for realising the dual 30·60 carbon goals, ESG investment can surely empower the green economy and help achieve the carbon neutrality goal.



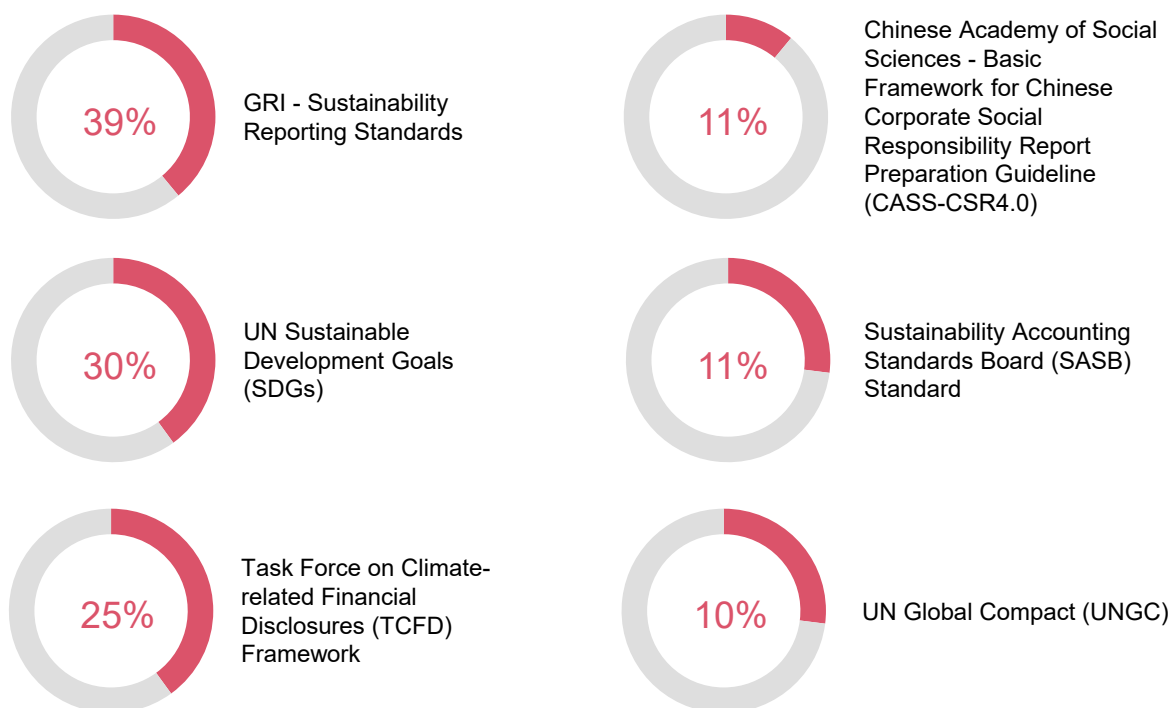
ESG disclosure requirements are becoming increasingly stringent and various ESG-related standards are yet to be harmonised internationally

As the scale of ESG investment grows, so does the demand for ESG-related information disclosure. Consequently, many companies begin to disclose relevant ESG information. However, there is no globally consistent standard for ESG disclosure like IFRS for financial reporting. In light of market studies, nearly 80% of institutional investors believe that current ESG reports lack sufficient comparability, even within the same industry. The areas of ESG disclosure required and the specific disclosures vary with the disclosure standard. For example, the GRI disclosure standard is aimed at not only investors but also internal and external stakeholders with the most extensive range, while the SASB (which has been merged with the IIRC) primarily at investors and the TCFD at the climate.

A call for standardised ESG disclosure mechanism is resounding in the market. In 2021, the IFRS Foundation announced the establishment of the ISSB and formally declared its intention to develop an international standard for the ESG information disclosure through the ISSB. On 31 March 2022, the ISSB issued *IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information (Exposure Draft)* and *IFRS S2 - Climate-related Disclosures (Exposure Draft)* for global public comments. The trend towards converged international disclosure standards for ESG is intensifying.

From the perspective of regulatory trends in ESG information disclosure, regulations and policies concerned worldwide are generally tighten up, from the introduction of "semi-mandatory + voluntary" rules to "mandatory/comply or explain" regulations.

Among the companies in this study, apart from HKEX ESG Reporting Guide, what framework and standards are adopted to prepare ESG reports?



Since the primary answer that report readers, including investors, expect to find is the relevance of ESG issues to their concerns (e.g. company business model), companies need to constantly review whether the report has a high-quality disclosure, whether it helps stakeholders to clearly understand the current status of corporate ESG, whether it can facilitate the capital market to obtain more realistic, objective, effective and comparable corporate ESG information, and whether it is in favour of investment institutions to better evaluate the ESG behaviour of companies, to boost positive interactions between companies, investors and regulators, thereby ultimately realising the transformation of corporate value growth and their long-term sustainable development.

ESG indices and ratings are important references for ESG investment

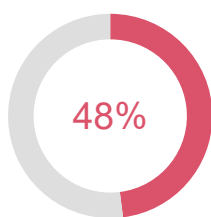
The ever-increasing expansion of ESG investment has led to the mainstreaming of ESG investment concept, along with the emergence of ESG evaluation system and ESG rating companies in the capital market for the purpose of benchmarking ESG performance of listed companies. In the *2020 Rate the Raters*, SustainAbility stated that as many as 65% of investors referred to ESG scores for corporate performance, indicating that companies with a good ESG performance (or a good ESG rating) will be favoured by more investment institutions and can access more investment opportunities and capitals.

Excluding the Hang Seng Corporate Sustainability Index, which is widely referred to by Hong Kong listed companies, from the results of *2020 Rate the Raters* issued by SustainAbility, MSCI, Sustainalytics, CDP and RobecoSAM (which publishes the Dow Jones Sustainability Indexes in partnership with S&P) are regarded by experts and investors as the most authoritative, impartial and credible rating agencies²⁰.

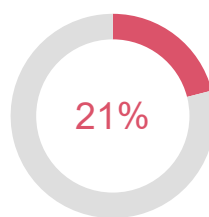


Among the 205 Hong Kong listed companies in this study, over **63%** have participated in or responded to ESG ratings and indices allegedly.

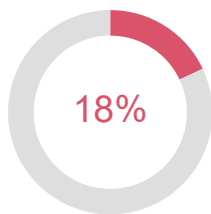
Which ESG ratings and indices do the companies in this study participate in and respond to



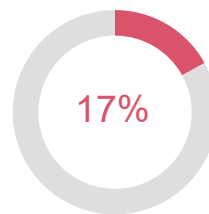
MSCI ESG Rating



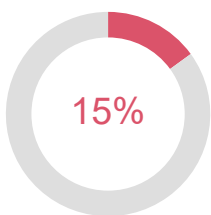
Hang Seng Corporate Sustainability Index



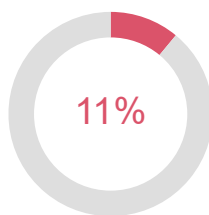
Sustainalytics



Carbon Disclosure Project (CDP)



S&P Global Corporate Sustainability Assessment



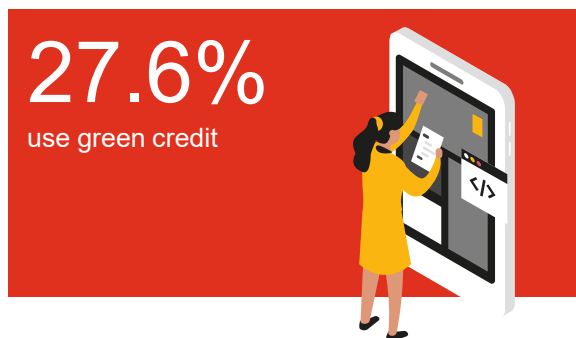
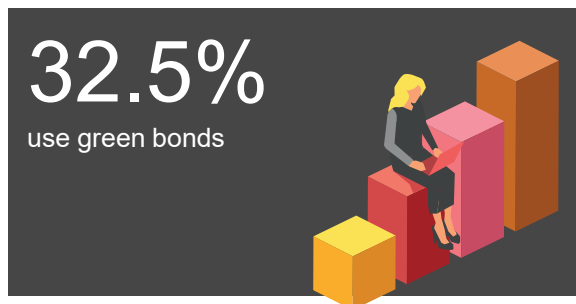
FTSE Russell Sustainability Rating

Companies are increasingly involved in green financing

Driving the shift to a carbon-neutral business requires more innovation and technological development, while the process of scaling up applications also creates a large demand for capital, giving rise to green financing, green bonds, green credit, environmental equity trading and other green financial services in support of such concepts.

To foster the development of green finance, the government encourages financial institutions to implement green finance and directs them to support the development of green industries.

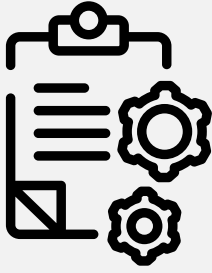
What kind of green investments do the companies mainly utilise in this study?



In terms of green credit, by the end of 2020, China's green credit balance was nearly RMB 12 trillion, representing the world's largest size of existing loans, for which large and medium-sized commercial banks were the core issuers, with a focus on transportation, energy and other fields. In addition, climate and environmental risks have increasingly become part of the important risk sources for financial institutions and financial regulators, accordingly, many international regulators are urging banks to conduct stress tests for climate and environmental risks and improve their risk management capabilities. China's banking industry is also actively exploring this area, but still in its infancy. In the future, there is a need to continuously improve assessment models and methodologies to enhance the monitoring and management on credit risks in the green transformation process.

In terms of green bonds, the *Catalogue of Projects Supported by Green Bonds (2021 Version)* released in April 2021 is of great significance in unifying domestic green bond project standards, enhancing operability and aligning with international standards. By the end of 2020, green bonds on China's market amounted to RMB 813.2 billion, ranking second in the world. Issuers of green bonds in China were mainly from the industrial and public utility sectors, with major listing locations in the domestic market, and issuance terms of less than 10 years. Besides, over half of the bonds issued were rated AAA. At present, China's green bonds mark a quick development and the system is relatively mature, which will play a more material role in guiding and mobilising social capital to invest in green areas and injecting market vitality into China's dual 30·60 carbon goals.

It is a common understanding in the market that policies and regulations are the main drivers of corporate participation in green finance. Meanwhile, enterprises surveyed also indicate their dependence on government resources for the details of policy measures and related climate risk models or ESG databases, hence, they are looking forward to the opening up of more channels for communication and dialogue to facilitate the development of the green finance ecosystem.



Case study

New World Development

"ESG disclosure is essential for investors to comprehensively assess their investments. It has brought along business opportunities from financing to enhancing brand value of NWD. As a responsible company that focused on ESG, we go beyond local reporting and voluntarily report in accordance with international disclosure frameworks, aligning with international best practices, therefore expanding our investor base to include like-minded international ESG investors.

With the increasing demand on ESG investing, not only are investors and rating agencies becoming more focused on listed companies' disclosed ESG information, which ranges from solid sustainability strategy to credible data demonstrating performance,

we as a company also emphasise decision making with increased ESG considerations such as green and wellness of building designs, including energy efficiency to climate risk considerations. Our comprehensive disclosures have helped us achieve high marks in international ESG ratings, reinforcing our brand on sustainability commitment. We were also able to leverage our ESG effort in sustainable financing, which totalled over HK\$25 billion as of 31 Dec 2021.

Today business can no longer be empowered by profit alone, but also by purpose, and co-created shared values for the larger society. And through transparent and robust ESG data disclosure would demonstrate our effort in driving sustainable development forward."





Study summary

Trend 6: ESG presents Green Finance opportunities for enterprises

Against the backdrop of the post-pandemic economic downturn, how to achieve more long-term and sustainable investment returns has turned out to be a key concern for investors:

- Under China's dual 30·60 carbon goals, industries continue with the green transformation, triggering a large amount of investment demand and industrial opportunities. As a result, more and more green financial services are being derived, and companies are actively participating in green finance with ESG as the starting point to achieve faster green transformation and advance their own sustainability capabilities.
- The global ESG investment scale is booming, and the Chinese market's focus on ESG keeps on increasing. With ESG factors gradually being incorporated into investors' investment decision making, companies are unceasingly exploring ways to obtain good ESG performance, so as to be preferred by investors.
- Green investment and financing institutions attach importance to companies' implementation of standards and regulated ESG disclosure, providing an impetus for companies to actively adopt an integrated ESG reporting system.

Closing remarks: New ways of thinking for corporates amidst the sustainable development trend

In 2022, with sustainable development being gradually incorporated into global macro policies, companies, as an important part in the society, should seize the opportunities and meet challenges to accelerate the low-carbon transformation in response to government calls and regulatory requirements. In exploring transformation initiatives and low-carbon development models, companies should take the following into consideration:



Corporate value:

What is our core corporate value? Can it reshape strategic decision making towards a low-carbon economy? Do the current internal policies/systems effectively reflect our low-carbon values?



Corporate governance:

How to improve company's corporate governance standards? How to review the current status and gaps in corporate governance on a regular basis and develop corresponding policies and guidelines to meet compliance requirements?



Opportunities and risks:

how will different global temperature control scenarios change our supply and demand? How will climate-related physical, policy and legal risks affect our business? How will we respond?



Emission targets:

What are our long-term emission targets? If we have or are about to be committed to net zero emissions, how do we set annual targets and develop a reasonable timeline in this regard?



Product quality:

Given changing consumer/business needs as well as the evolving regulatory environment, what types of products and services do we plan to sell? How to improve the quality of our products and services in a limited period of time?



Internal resources:

In order to realise the sustainable development strategy of a company, how to train and promote the sustainable development management capabilities of employees and board members? What kind of talents should be recruited in the future to streamline and to improve sustainable management capabilities?



Regulatory requirements:

How do changes in ESG-related regulatory policies affect company valuations and strategies? In the face of ever-changing regulatory requirements, how to further improve the level of corporate ESG management?



Investor relations:

How will our disclosures guide investment decision-making and policy direction? Where will our investors come from in the future? What ESG risks do our target investors expect of and intensely focus on?



Data quality:

Is there a quality gap between financial data and ESG data? How to manage to narrow data gaps and improve ESG data quality?





Appendices

Appendix 1 Glossary of abbreviations

Abbr.	Full Name
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CO ₂	Carbon Dioxide
COD	Chemical Oxygen Demand
COP26	The 26th United Nations Climate Change Conference of the Parties
Corporate Governance Code	Appendix 14 – Corporate Governance Code of the Listing Rules
ESG	Environmental, Social and Governance
ESG Reporting Guide	Appendix 27 – ESG Reporting Guide of the Listing Rules
FSB	The Financial Stability Board
FTSE	The Financial Times Stock Exchange
GDP	Gross Domestic Product
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
HSSUS	Hang Seng Corporate Sustainability Index Series
HKEX	The Hong Kong Stock Exchange
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IPCC	The Intergovernmental Panel on Climate Change of United Nations
ISSB	International Sustainability Standards Board
KPIs	Key Performance Indicators
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
LCA	Life Cycle Assessment
MSCI	Morgan Stanley Capital International
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Target Initiative
S&P Global CSA	S&P Global Corporate Sustainability Assessment
SDGs	United Nations Sustainable Development Goals
SSV	Sustainable Social Value
TCFD	Task Force on Climate-related Financial Disclosures
TMT	Telecommunications, Media and Technology
UN PRI (or PRI)	United Nations Principles for Responsible Investment
WEF	World Economic Forum

Appendix 2 Citation List

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