



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

HKFRS Sustainability Disclosure Standards Guidance Part 1

August 2025



COPYRIGHT NOTICE AND DISCLAIMER

© Copyright 2025 Hong Kong Institute of Certified Public Accountants

Terms of Use

This document contains IFRS Foundation copyright material which is reproduced and distributed by the Hong Kong Institute of Certified Public Accountants ("HKICPA") with the permission of the IFRS Foundation.

Reproduction of this document both within or outside Hong Kong SAR (Hong Kong) in unaltered form (retaining this notice and the IFRS Foundation copyright notice) is permitted for personal and non-commercial use only subject to the inclusion of an acknowledgment of the source.

This guidance has been reviewed and approved by the HKICPA's Sustainability Disclosure Standards Committee for publication and is for general reference only. The views expressed in this guidance are non-authoritative and have not been formally endorsed by the HKICPA Council.

Disclaimer

The HKICPA, its staff, Council and its committees do not accept any responsibility and disclaim all liability in respect of this guidance or any consequence that may arise from any person acting or refraining from acting as a result of any materials in the guidance.

Members of the HKICPA and other users of this guidance should read the full HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and HKFRS S2 Climate-related Disclosures in conjunction with this guidance, and seek professional advice where necessary when applying the references contained in this guidance.



Copyright © IFRS Foundation All rights reserved.

Copyright © 2025 IFRS® Foundation

Used with permission of the IFRS Foundation. All rights reserved. Reproduction and use rights are strictly limited. Please contact the IFRS Foundation for further details at licences@ifrs.org. Copies of ISSB® publications may be obtained from the IFRS Foundation's Publications Department. Please address publication matters to publications@ifrs.org or visit our webshop at <http://shop.ifrs.org>.

Disclaimer

To the extent permitted by applicable law, the ISSB and the IFRS Foundation expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs. Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

Trade Marks

The Foundation has trade marks registered around the world including 'FSA®', the 'Hexagon Device' logo®, 'IAS®', 'IASB®', 'IFRIC®', 'IFRS®', the 'IFRS®' logo, 'IFRS for SMEs®', 'ISSB®', 'International Accounting Standards®', 'International Financial Reporting Standards®', 'International Financial Reporting Standards Foundation®', 'IFRS Foundation®', 'NIIF®', 'SASB®', 'SIC®', 'SICS®' and 'Sustainable Industry Classification System®'. Further details of the IFRS Foundation's trade marks are available from the IFRS Foundation on request.

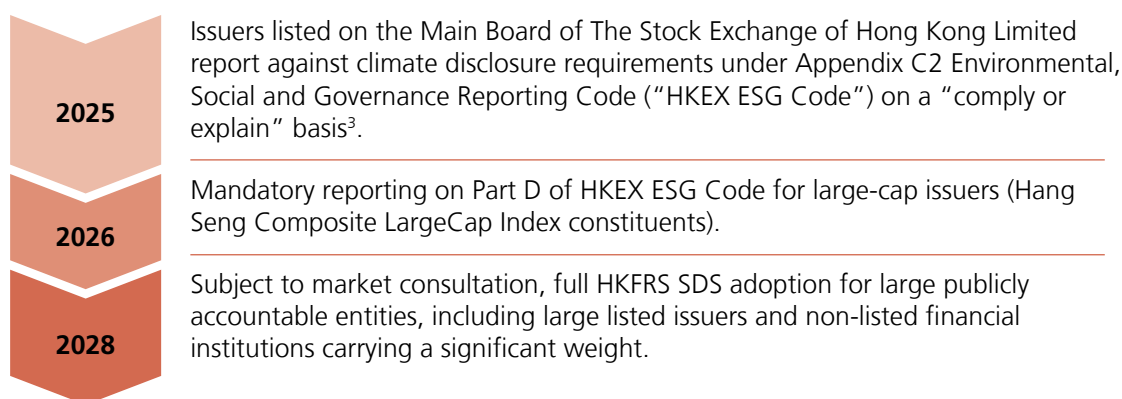
Contents

4	About this Guidance
4	Objective of this guidance
4	About HKFRS S1 and HKFRS S2
6	Structure of the guidance
6	Overview of the guidance
7	Supporting resources and educational materials
8	Navigate throughout the guidance
8	Comments
9	Chapter 1 – Mechanisms Supporting the Application of HKFRS SDS
9	1.1 Introduction
11	1.2 First-year transition reliefs
13	1.3 Proportionality mechanisms
19	1.4 Mechanism applicable to financial effects not separately identifiable
22	1.5 Commercially sensitive information exemption
23	1.6 Statement of compliance with HKFRS SDS
25	Chapter 2 – Reporting Entity
25	2.1 Introduction
25	2.2 Connection with financial statements
31	Chapter 3 – Value Chain
31	3.1 Introduction
34	3.2 Steps to determine the scope of the value chains
40	Chapter 4 – Sustainability-related Risks and Opportunities and Materiality
40	4.1 Introduction
41	4.2 Steps to identify relevant sustainability-related risks and opportunities
57	4.3 Identifying and disclosing material information
64	Appendices
64	Appendix 1 – Additional supporting resources and educational materials
65	Appendix 2 – Defined terms and abbreviations

About this Guidance¹

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) marked a significant milestone in December 2024 with the publication of **HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information** and **HKFRS S2 Climate-related Disclosures** (collectively “HKFRS SDS”). Fully aligned with the **IFRS Sustainability Disclosure Standards** (“ISSB Standards”), these standards reinforce Hong Kong’s commitment to global sustainability reporting harmonisation, providing a unified framework for high-quality, decision-useful disclosures.

The Hong Kong SAR Government’s **Roadmap on Sustainability Disclosure**² (December 2024) outlines a phased adoption strategy:



This roadmap aligns with Hong Kong’s vision to transform regulatory obligations into strategic opportunities, fostering a transparent and resilient financial ecosystem.

Objective of this guidance

This guidance (referred to as “HKFRS SDS Guidance”) aims to support entities in applying HKFRS S1 and HKFRS S2 effectively and efficiently. This guidance focuses on practical implementation – the “how” of applying these standards for sustainability and non-sustainability professionals. In developing this guidance, common challenges, market practices and frequently asked questions have been considered, drawing on a range of publications and resources available at the time of writing. The topics addressed here were selected based on their practical relevance and the areas where preparers most often seek clarity.

This guidance serves as a supplementary resource to be used alongside official HKFRS SDS documents, and it is not as a substitute for understanding the full requirements. Judgement should be applied when considering an entity’s own facts and circumstances.

About HKFRS S1 and HKFRS S2

- **HKFRS S1** sets out a framework for entities to disclose material sustainability-related financial information that provides investors and other primary users with a complete set of sustainability-related financial disclosures. The standard requires information to be provided on sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects, including the entity’s cash flows, its access to finance, or cost of capital over the short, medium, or long term. HKFRS S1 also specifies how these disclosures relate to an entity’s financial statements, requiring that sustainability-related financial disclosures be included as part of the general purpose financial reports. This approach ensures that investors and other primary users receive decision-useful information that is relevant and connected to the entity’s overall financial position and performance.

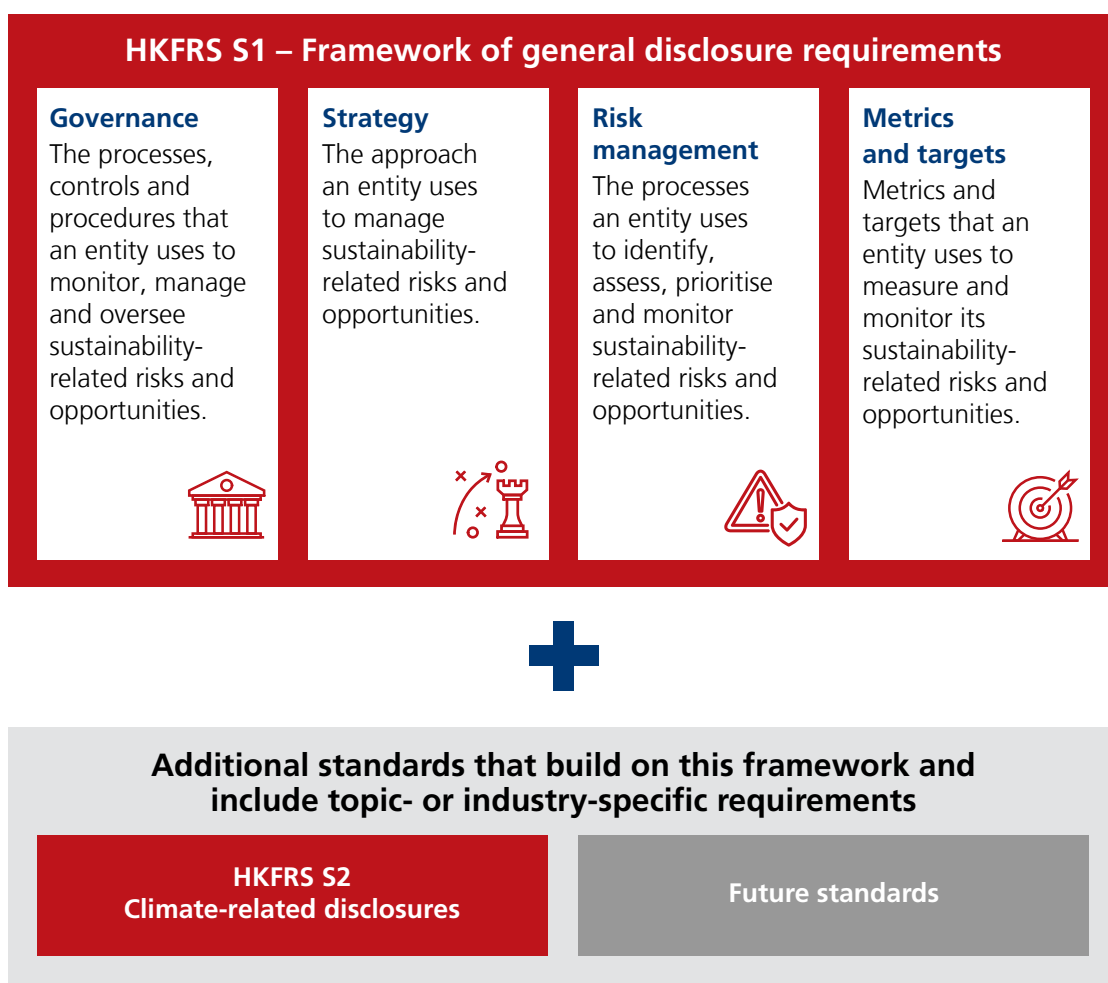
¹ KPMG in Hong Kong was engaged as the technical consultant to assist the HKICPA in preparing this guidance.

² Roadmap on Sustainability Disclosure in Hong Kong: Ambition · Assurance · Enablement (December 2024)

³ The Hong Kong Exchanges and Clearing Limited (“HKEX”) has issued Implementation Guidance (“HKEX IG”) to support companies with Part D of HKEX ESG Code. The HKEX IG together with Part D of HKEX ESG Code are closely aligned with the ISSB Standards.

- **HKFRS S2** sets out the required disclosure of information about climate-related matters. Building on the Task Force on Climate-related Financial Disclosures (“TCFD”) recommendations and the industry-specific metrics from the Sustainability Accounting Standards Board (“SASB”) Standards, HKFRS S2 specifies the disclosures on climate-related physical and transition risks and opportunities that could reasonably be expected to affect the entity’s prospects. HKFRS S2 requires entities to perform climate-related scenario analysis to assess the resilience of their strategy and business model to climate-related changes. The standard also requires disclosures of strategies to manage climate-related risks and opportunities, climate-related transition plan (where established) and metrics including Scope 1, 2 and 3 greenhouse gas (“GHG”) emissions.

HKFRS SDS emphasise connectivity – ensuring sustainability-related financial disclosures align with each other, as they are designed to be applied together and alongside future topic- or industry-specific standards. HKFRS SDS include reporting across **four core content areas** as follows:



When the International Sustainability Standards Board (“ISSB”) publishes any new standards in the future, the HKICPA will engage with relevant stakeholders to decide on the potential adoption of those new standards in Hong Kong as appropriate. According to its 2024-2026 work plan, the ISSB is researching risks and opportunities associated with sustainability topics beyond climate for entities to meet information needs of investors. Two topics that are being researched on are biodiversity, ecosystems and ecosystem services and human capital. Readers can refer to the ISSB’s [website](#) for the latest updates on these topics.

Structure of the guidance

The HKFRS SDS Guidance is organised into two parts, each covering a set of topics relevant to the implementation of the standards:

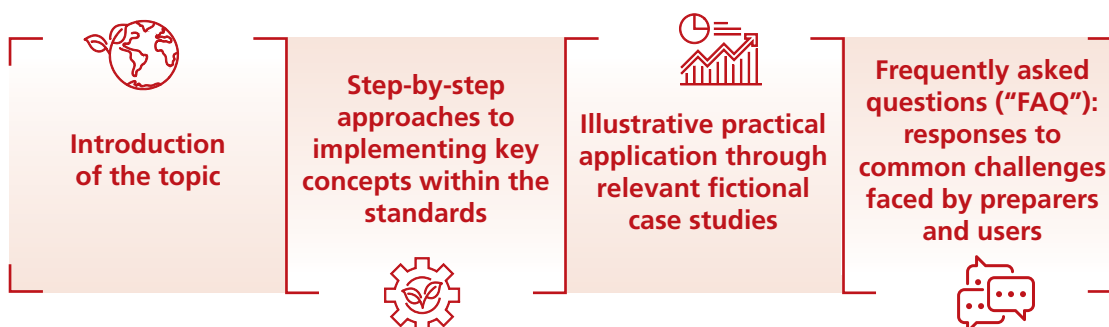
Part 1: Foundational topics

Chapter 1	Mechanisms Supporting the Application of HKFRS SDS
Chapter 2	Reporting Entity
Chapter 3	Value Chain
Chapter 4	Sustainability-related Risks and Opportunities and Materiality

Part 2: Focused topics

Chapter 5	Climate-related Scenario Analysis
Chapter 6	Anticipated Financial Effects
Chapter 7	GHG Emissions
Chapter 8	Transition Plans
Chapter 9	Connected Information




Each chapter is presented in the following structure:

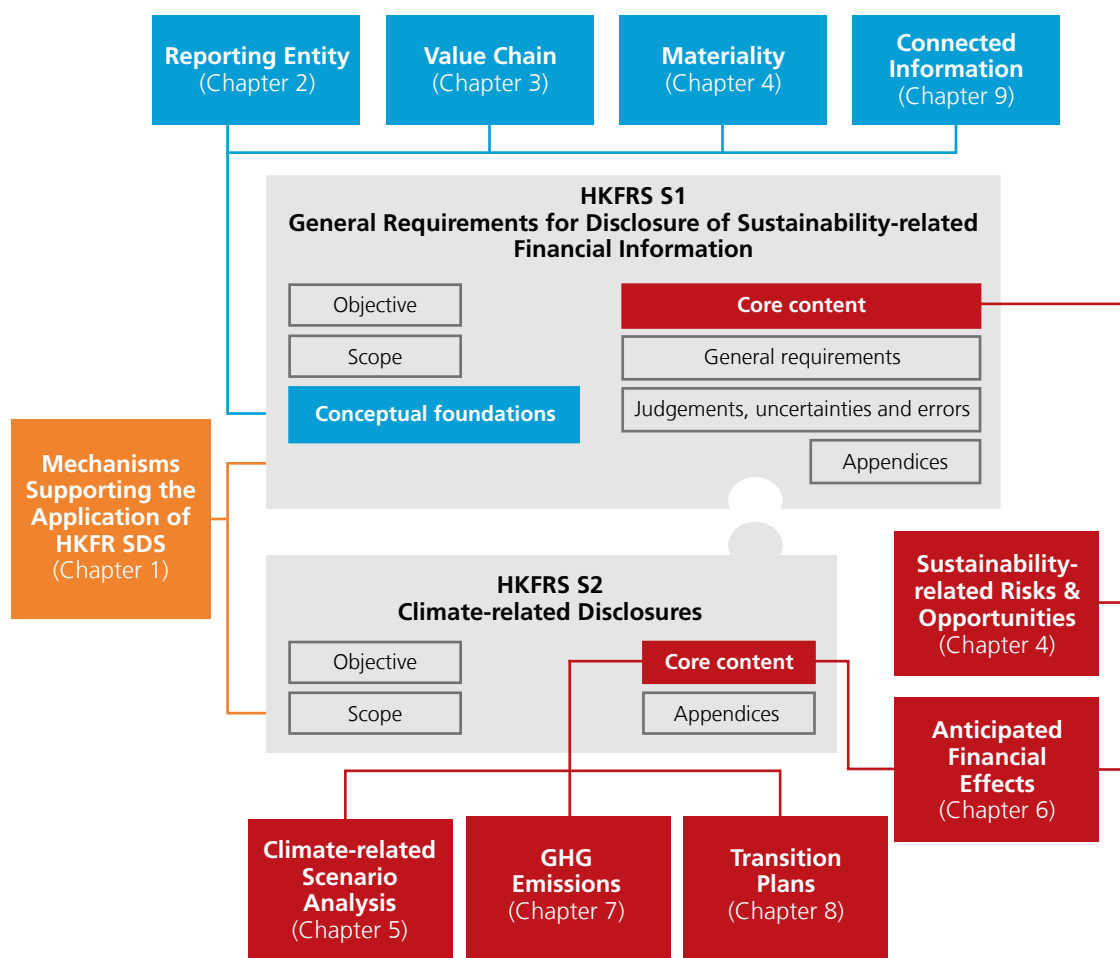


Overview of the guidance

The following diagram is designed to help readers navigate this guidance.

The diagram illustrates the key topics covered in this guidance, organised to reflect the interconnected nature of sustainability-related financial disclosures.

	Foundational topics	These topics from HKFRS S1 help entities determine the scope and boundaries for reporting and apply reasonable and supportable approach for implementation.
	Core content topics	Disclosures about governance, strategy, risk management and metrics and targets concerning sustainability-related risks and opportunities and climate-related risks and opportunities. These topics can be found in the respective Core Content sections of HKFRS S1 and HKFRS S2.
	Mechanisms for applying HKFRS SDS	These are mechanisms that are embedded throughout HKFRS S1 and HKFRS S2 to help ease the burden of disclosure from applying HKFRS SDS.



Supporting resources and educational materials

This guidance assumes readers have a basic understanding of HKFRS SDS and sustainability concepts, building on this foundation with practical application guidance.

Readers should note that this guidance is a supplementary resource and should be used alongside the official HKFRS SDS documents, not a substitute for understanding the full requirements of the standards. This guidance does not aim to cover all aspects of HKFRS SDS, but rather to address selected topics within HKFRS S1 and HKFRS S2. The approaches and examples illustrated in this guidance are intended to demonstrate ways of applying the standards in various contexts; they are not the only acceptable approaches, nor do they represent mandatory or prescriptive interpretations. Judgement should always be applied, taking into account each entity's specific facts and circumstances.

Additionally, at the time of writing, only HKFRS S2 has been issued; readers should stay informed of future developments and updates to the standards.

To facilitate implementation, stakeholders are encouraged to make use of the following resources from ISSB and HKICPA:

ISSB Resources

- **Knowledge Hub:** A central repository of capacity-building resources, technical guidance, educational materials, e-learning modules and digital tools for preparers.
- **Transition Implementation Group on IFRS S1 and IFRS S2 ("TIG"):** The TIG discusses, in a public forum, implementation questions that arise when entities implement IFRS S1 and S2. The forum allows the TIG to solicit, analyse and discuss stakeholder questions arising from implementation of the standards. It also enables stakeholders to learn about ISSB Standards from others involved with implementation.

- **Digital Taxonomy:** Tools for digital reporting of sustainability-related financial disclosures.
- **SASB Standards:** The SASB Standards are a source of guidance that help entities identify and disclose information about sustainability-related risks and opportunities in the absence of specific IFRS Sustainability Disclosure Standards.
- **CDSB Framework Application Guidance:** While Climate Disclosure Standards Board (“CDSB”) has been consolidated into the IFRS Foundation, CDSB’s Framework and technical guidance on Climate, Water and Biodiversity disclosures serve as a useful guidance for entities until the ISSB issues its IFRS SDS on such topics.




HKICPA Resources

- **Implementation Support Platform:** An online portal for submitting technical implementation questions regarding HKFRS/IFRS S1 and S2 for discussion by the HKICPA’s Sustainability Disclosure Standards Committee representatives at its Implementation Platform meetings.
- **Sustainability Information Centre:** An online centre for the latest development, thought leadership and learning resources on sustainability for accounting and non-accounting professionals.
- **Resource Centre for Sustainability Standards :** A summary of professional standards, technical publications and reference materials relevant to sustainability reporting, assurance and ethics.

Additional supporting resources and educational materials published by other institutions are provided as a reference in Appendix 1.

Navigate throughout the guidance

Throughout the guidance, the following symbols are used to highlight different contents:

Symbols	Purpose
[HKFRS S1]	References to relevant paragraph(s) of HKFRS S1
[HKFRS S2]	References to relevant paragraph(s) of HKFRS S2
	Highlights
	Practical examples
	Frequently asked questions

Comments

The HKICPA’s Standard Setting Department welcomes comments and feedback on this publication to be sent by email to commentletters@hkicpa.org.hk to help improve future publications and ensure the guidance remains practical and relevant for users.

1

Mechanisms Supporting the Application of HKFRS SDS

Objectives	To explain transition reliefs, proportionality mechanisms and certain mechanisms that are available to entities to support the implementation of HKFRS SDS
ISSB educational materials and other resources	<ul style="list-style-type: none"> • Webcast: Proportionality mechanisms in IFRS Sustainability Disclosure Standards • Factsheet Series – Proportionality Digest • Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2 • Voluntarily applying ISSB Standards – A guide for preparers
HKICPA educational materials and other resources	<ul style="list-style-type: none"> • HKICPA Guidance 1: Two important ideas in IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> and IFRS S2 <i>Climate-related Disclosures</i> to facilitate proportionality and scalability • HKICPA Guidance 2: Considerations of Skills, Capabilities and Resources in Climate-Related Scenario Analysis

1.1

Introduction

This chapter explains the mechanisms designed to support entities in applying HKFRS SDS, including first-year transition reliefs, ongoing proportionality mechanisms, mechanisms applicable to financial effects not separately identifiable and commercially sensitive information exemption. These features are intended to facilitate practical, scalable and effective implementation of the standards, helping entities address challenges and build capacity as they enhance their sustainability-related financial disclosures over time.

Here is an overview of these mechanisms:

Table 1.1

Overview of Mechanisms Supporting the Application of HKFRS SDS

		Proportionality Mechanisms (section 1.3)			
	First-Year Transition Reliefs (section 1.2)	Undue Cost or Effort Mechanism (section 1.3)	Capabilities Mechanism (section 1.3)	Financial Effects (section 1.4)	Commercial Sensitivity (section 1.5)
First year transition: <ul style="list-style-type: none"> • Climate-first approach • Timing of reporting • Comparative information 	[HKFRS S1. E5,E6] [HKFRS S1.E4] [HKFRS S1.E3] [HKFRS S2.C3]				

		Proportionality Mechanisms (section 1.3)			
	First-Year Transition Reliefs (section 1.2)	Undue Cost or Effort Mechanism (section 1.3)	Capabilities Mechanism (section 1.3)	Financial Effects (section 1.4)	Commercial Sensitivity (section 1.5)
Identifying sustainability-related/climate-related risks and opportunities		[HKFRS S1.B6(a)] [HKFRS S2.11]			
Determining the scope of the value chain		[HKFRS S1.B6(b)]			
Current financial effects				[HKFRS S1.38,40] [HKFRS S2.19,21]	
Anticipated financial effects		[HKFRS S1.37(a)] [HKFRS S2.18(a)]	[HKFRS S1.37(b), 39] [HKFRS S2.18(b), 20]	[HKFRS S1.38,40] [HKFRS S2.19,21]	
Commercially sensitive information about sustainability-related opportunities					[HKFRS S1.73]
Scope 1 and Scope 2 GHG emissions	[HKFRS S2.C4(a), C5]				
Scope 3 GHG emissions	[HKFRS S2.C4,C5]	[HKFRS S2.B39]			
Climate-related scenario analysis		[HKFRS S2.B1]	[HKFRS S2.B2]		
Amount and percentage of assets or business activities that are: <ul style="list-style-type: none"> • vulnerable to climate-related transition risks • vulnerable to climate-related physical risks • aligned with climate-related opportunities 		[HKFRS S2.30]			

1.2

First-year transition reliefs

HKFRS SDS provide transitional reliefs to ease implementation in the first year. The following table summarises the reliefs:

Table 1.2 First-Year Transition Reliefs

Aspect	First Year (Transition Year)	Second Year and Beyond
Non-Climate Disclosures	<ul style="list-style-type: none"> Permitted not to report on non-climate sustainability-related risks and opportunities⁴. Must explicitly state if this transition relief is applied. [HKFRS S1.E5] 	Disclose material information about sustainability-related risks and opportunities including climate-related risks and opportunities. [HKFRS S1.3, 17] [HKFRS S2.2]
Reporting Timing	<p>Permitted to report sustainability-related financial disclosures after publishing the related financial statements.</p> <p>In applying this relief, an entity shall report its sustainability-related financial disclosures:</p> <ul style="list-style-type: none"> at the same time as its next second-quarter or half-year interim general purpose financial report, if the entity is required to provide such an interim report; at the same time as its next second-quarter or half-year interim general purpose financial report, but within nine months of the end of the annual reporting period in which the entity first applies HKFRS S1, if the entity voluntarily provides such an interim report; or within nine months of the end of the annual reporting period in which the entity first applies HKFRS S1, if the entity is not required to and does not voluntarily provide an interim general purpose financial report. [HKFRS S1.E4] 	Report sustainability-related financial disclosures at the same time as its related financial statements. [HKFRS S1.64]

⁴ See educational material “Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2” for further guidance.

Aspect	First Year (Transition Year)	Second Year and Beyond
Comparative Information	<ul style="list-style-type: none"> Permitted not to disclose prior-year data. [HKFRS S1.E3] 	<p>Climate: Comparative data from prior year. [HKFRS S1.70]</p> <p>Non-climate: If first disclosed in the second year, no comparative data is required until the third year. [HKFRS S1.E6] [HKFRS S2.C3]</p>
Scope 3 GHG Emissions	Permitted not to report on Scope 3 GHG emissions. [HKFRS S2.C4(b)]	Disclosure of Scope 3 GHG emissions and associated information required by HKFRS S2. Refer to Chapter 7 of the HKFRS SDS Guidance Part 2 for more details.
Use of GHG Protocol Corporate Standard for measurement	Allowed to use a method for measuring GHG emissions other than the <i>Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)</i> (the “GHG Protocol Corporate Standard”) if the entity used this method in the preceding reporting period. [HKFRS S2.C4(a)]	Follow the GHG Protocol Corporate Standard unless jurisdictional requirements dictate otherwise. [HKFRS S2.29(a)(ii)]

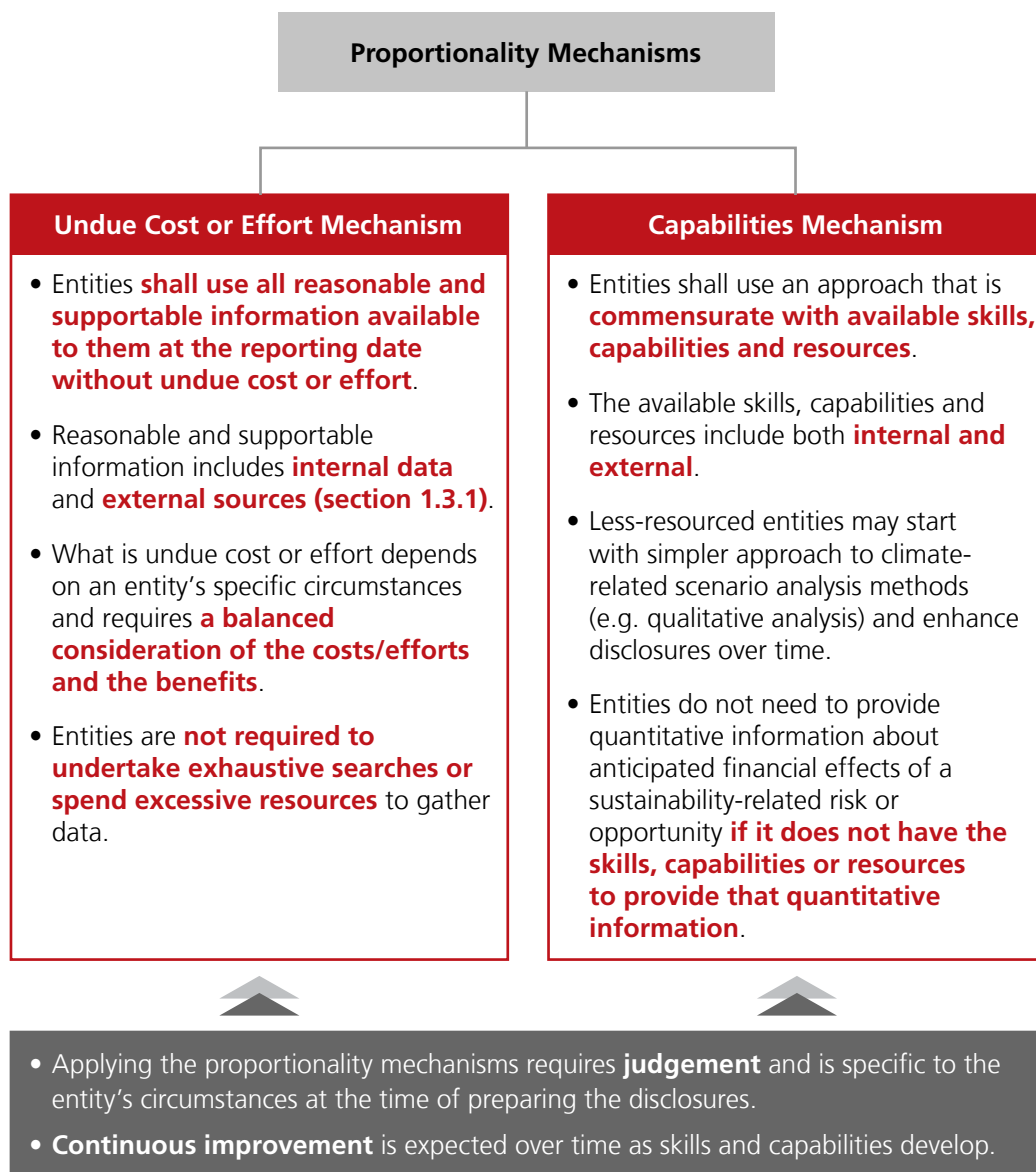
1.3

Proportionality mechanisms

Proportionality mechanisms in HKFRS SDS are designed to make the standards practical and achievable for all companies, regardless of their size, resources or stage of sustainability reporting maturity, while balancing practicality and investor needs.

Figure 1.1

Applying the Proportionality Mechanisms










1.3.1






Internal and external information

The following are practical examples of internal and external information that is often already available to entities without undue cost or effort:

Table 1.3

Examples of internal and external information

Examples of internal information	
Financial statements/ management accounts 	Revenue, cost, or capital expenditure data for estimating/ modelling the financial effects of climate risks
Procurement records 	Supplier invoices and purchase information to identify high-emission materials or critical suppliers
Energy/ utility bills 	Track Scope 1 and Scope 2 emissions from owned facilities
Internal risk assessments 	Existing risk registers to inform the identification of sustainability-related risks that could reasonably be expected to affect an entity's prospects
Employee surveys 	Insights into workforce diversity, health and safety practices, or training programmes
Production and logistics data 	Calculate waste generation or fuel consumption from manufacturing activities
Internal audits 	Compliance reports on labour practices or anti-corruption policies

Examples of external information	
Industry benchmarks 	Use sector-average emission factors to estimate Scope 3 emissions
Supplier sustainability reports 	Leverage disclosures from key suppliers to fill gaps in upstream value chain data
Government databases 	Regional water scarcity indices or regulatory climate targets to assess physical risks
Third-party certifications 	Eco-labels (e.g. Fair Trade , Forest Stewardship Council) to verify sustainable sourcing practices
Market/peer disclosures 	Competitors' environmental, social and governance ("ESG") reports to identify topics or benchmarking opportunities

1.3.2

Applying the proportionality mechanisms

Applying the proportionality mechanisms requires judgement and is specific to the entity's circumstances at the time of preparing the disclosures. Continuous improvement is expected over time as skills and capabilities develop. The following are three practical examples illustrating potential ways of applying the proportionality mechanisms.

Example 1.1



Applying the undue cost or effort mechanism on Scope 3 GHG emissions

Oriental Home Products Ltd. ("Oriental Home Products") is a home appliance manufacturer that is preparing its sustainability report. It is required to report Scope 3 GHG emissions which include emissions from its entire value chain, such as those from suppliers of raw materials, transportation, product use and end-of-life disposal.

Oriental Home Products has hundreds of suppliers, many of whom are small companies located in multiple countries. Most of these suppliers do not track or report their own GHG emissions, and collecting primary data from each would require significant time, resources and costs. Additionally, some suppliers operate on different financial and sustainability reporting cycles, making data alignment even more challenging.

In applying the undue cost or effort mechanism under HKFRS S2.B39:

- Oriental Home Products prioritises collecting primary GHG emissions data from its tier 1 suppliers, who account for approximately 70% of procurement spend.
- For tier 1 suppliers, the entity requests the most recent emissions data available. For suppliers with different financial and sustainability reporting periods, the entity uses the latest data available from those suppliers as long as the length of the period covered by the data is same as its reporting period as permitted under HKFRS S2.B19 and BC114.
- For tier 2 and tier 3 suppliers where primary data is not available or cannot be obtained without disproportionate effort, the entity estimates emissions using the most recent and reliable data available – such as industry average emission factors and data from comparable suppliers.
- Oriental Home Products discloses its estimation approach, the sources of data used and the limitations of its Scope 3 calculations. It also discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates of the suppliers and the date of its general purpose financial reports.
- It describes its ongoing efforts to improve data quality, such as engaging key suppliers in emissions tracking, investing in emissions management software and setting a timeline for enhancing future disclosures.



Applying the capabilities mechanism in climate-related scenario analysis

HarbourBuild Holdings Ltd. (“HarbourBuild”) is a mid-sized Hong Kong-listed property developer which owns and manages a diverse portfolio of residential and commercial properties in China, Indonesia and Vietnam. HarbourBuild’s portfolio includes 45 properties with a combined asset value of HK\$12.8 billion.

In preparing its sustainability report under HKFRS SDS, HarbourBuild is required to conduct climate-related scenario analysis to assess the resilience of its strategy and business model to climate-related changes, developments and uncertainties. This includes evaluating how climate-related risks might impact its operations including its portfolio of property assets. However, the entity has limited experience with climate-related scenario analysis and lacks the resources to conduct detailed quantitative modelling for each country.

Assessment of All Reasonable and Supportable Information (HKFRS S2.B1)

Before determining its approach to climate-related scenario analysis, HarbourBuild conducted a thorough assessment of all reasonable and supportable information available, both internally and externally:

Internal information sources reviewed:

- property asset registers and valuations across all three markets;
- historical operational data including energy consumption, maintenance costs and insurance claims over the last five years;
- existing risk management processes and property vulnerability assessments;
- internal expertise assessment: varying capabilities of sustainability team, local property management teams and access to external climate expertise across all three regions;
- capital allocation and budgeting processes for property improvements and adaptations; and
- existing climate-related policies and procedures across all markets.

External information sources considered:

- **Climate Data and Scenarios:** Sixth Assessment Report from the Working Groups of the Intergovernmental Panel on Climate Change (“IPCC”), national meteorological agencies’ climate projections for China, Indonesia and Vietnam;
- **Industry Resources:** Real estate industry climate risk assessments, peer company scenario analysis disclosures and property sector vulnerability studies; and
- **Technical Resources:** Industry consortiums’ scenario analysis methodologies such as Carbon Risk Real Estate Monitor and academic research on climate risks for the property sector.

Assessment of Circumstances (HKFRS S2.B2-B7)

Exposure to climate-related risks and opportunities

HarbourBuild assessed that it has high exposure to climate-related risks and certain opportunities across its portfolio of property assets:

- geographic concentration in climate-vulnerable regions (coastal areas, flood-prone river basins);
- physical risk exposure from flooding, extreme heat and sea-level rise affecting 78% of properties by value;

- transition risks from evolving building codes and carbon pricing mechanisms in all three markets; and
- opportunities such as energy-efficiency retrofits, onsite renewables, green-building certifications and access to sustainability-linked finance could enhance rental yields, reduce operating costs and improve assets valuations.

Available Skills, Capabilities and Resources

HarbourBuild evaluated its current skills, capabilities and resources:

- **Internal Skills:** Sustainability team has basic climate risk awareness but no specialised climate modelling expertise; local teams have operational knowledge but limited technical climate assessment capabilities.
- **External Resources:** Budget constraints limit ability to engage specialised climate modelling consultants for comprehensive quantitative analysis across all markets for full portfolio quantitative modelling.
- **Data and Systems:** Basic property management data available but lacks integration with climate databases and there are no existing climate risk management systems.
- **Time and Capacity:** Limited bandwidth to develop sophisticated modelling capabilities within current reporting timeline.

Determining the Appropriate Approach (HKFRS S2.B8-B15)

Based on the above assessment, HarbourBuild determined that a primarily qualitative approach was commensurate with its current circumstances:

China portfolio (enhanced approach):

Given better data availability and relatively stronger local team capabilities, HarbourBuild conducted more structured qualitative scenario analysis using:

- publicly available climate scenarios from [Network for Greening the Financial System](#) ("NGFS");
- regional meteorological agency's projections and flood mapping;
- integration with existing property risk assessments and local market knowledge; and
- evaluation of green-retrofit and onsite-solar opportunities.

Indonesia and Vietnam portfolios (basic qualitative approach):

Due to more limited local data availability and team capabilities, HarbourBuild applied a high-level qualitative approach using:

- regional climate reports and international development banks' assessments such as [World Bank's Climate Risk Country Profiles](#) where there is high-level assessment of physical climate risks for a country based on projected climate data;
- local property manager insights and historical event analysis;
- sector-level vulnerability assessments from industry sources; and
- preliminary screening of energy-efficiency and certification opportunities.

Example 1.2B



Second-year application of the capabilities mechanism in climate-related scenario analysis

HarbourBuild presents its second year of climate-related scenario analysis under HKFRS SDS, building on the foundation established in the previous reporting period.

Enhanced Capabilities and Information Sources (Year 2)

During the second year of reporting, HarbourBuild significantly expanded its information gathering and capabilities and importantly, applied these insights to enhance its climate-related scenario analysis:

Enhanced capabilities:

- **Improved Risk Management Integration:** Climate-related scenario analysis now formally integrated into quarterly risk committee reviews and annual strategic planning processes.
- **Enhanced Local Expertise:** Recruited a new sustainability manager who provided specialised climate risk assessment training to property management teams.

Broadened information sources:

- **Enhanced Climate Data:** With a small but targeted budget financed by a new sustainability-linked loan, HarbourBuild subscribed to two commercial climate risk databases that deliver building-level flood- and heat-stress projections, supplementing the free government datasets used in Year 1.
- **Industry Collaboration:** Leveraging the new sustainability manager's professional network, HarbourBuild joined regional real estate climate resilience consortiums in China and Southeast Asia, gaining insights about industry methodologies and practices.
- **Peer Learning:** In response to investor questions and demands, the team reviewed climate-related scenario disclosures from 15 comparable regional property developers, extracting cost, adaptation-capex and rental-premium assumptions to calibrate its own model.

Commensurate Approach Applied (Year 2 - Enhanced Proportionality)

Based on enhanced assessment, HarbourBuild applied a semi-quantitative approach with improved granularity:

China portfolio (quantitative analysis for high-risk assets):

- Conducted quantitative scenario analysis for eight highest-value and highest-risk properties and related operations using commercial climate modelling tools.
- For the remaining 17 properties and related operations, retained a structured qualitative approach. Assumptions for these assets are now periodically benchmarked against the quantitative results from comparable assets in the same climate zones to ensure consistency.

Indonesia and Vietnam portfolios (enhanced qualitative with pilot quantitative):

- Upgraded to structured qualitative analysis using standardised risk assessment frameworks.
- Pilot quantitative analysis for three highest-value properties and related operations in each market using university partnerships.

Implemented targeted adaptation measures – actions informed by the Year 2 scenario analysis:

- Initiated HK\$8 million in climate adaptation investments in the six highest-risk properties for flood barriers, enhanced drainage systems and backup power systems.
- Updated property management protocols and emergency response procedures in light of revised physical-risk heat-maps.
- Embedded climate resilience criteria into due diligence processes for all new acquisitions and major renovations.

In the second year of implementing HKFRS SDS, HarbourBuild's approach shows how the proportionality principle evolves as skills, data and resources improve.



Proportionality is a bridge, not a barrier

Proportionality mechanisms are not just about making the standards easier – they are designed to help companies get started and build confidence, even if their sustainability data or expertise is limited. Use proportionality to begin reporting now, knowing your disclosures can – and should – become more sophisticated as your systems, skills and resources improve.

1.4

Mechanism applicable to financial effects not separately identifiable

[HKFRS S1.38,40]
[HKFRS S2.19,21]

Sometimes, the current financial effects and/or the anticipated financial effects of a climate-related or a sustainability-related risk or opportunity cannot be separately identifiable – for example, because they are interrelated with other factors or embedded within broader financial effects. In these cases, if it is not possible to isolate the financial effect of a specific sustainability-related risk or opportunity, the entity is required to provide quantitative information about the combined financial effects of that sustainability-related risk or opportunities with other sustainability-related risks or opportunities and other factors. This means that, even if the financial impact of an individual risk or opportunity cannot be measured on its own, the entity should still disclose the aggregate quantitative effect where possible.

[HKFRS S1.38,40]
[HKFRS S2.19,21]

If however, the level of measurement uncertainty involved in estimating these effects is so high that the resulting quantitative information would not be useful, the entity is permitted to provide qualitative information only.

Example 1.3



Applying the financial effects relief

Jinlong Foods Co., Ltd. (“Jinlong”) is a Chinese food manufacturer that produces packaged snacks and beverages, sourcing agricultural ingredients locally and internationally. Jinlong is required to disclose information for financial reporting period FY 20X5 that enables users of general purpose financial reports to understand the current and anticipated effects of climate-related risks and opportunities on its business model and value chain.

Identification of climate-related risks and opportunities:

- **Physical risks:** Extreme weather impacts on crop yields and transport reliability.
- **Transition risks:** Regulatory changes (carbon pricing, packaging standards) and market shifts toward lower-carbon and more resource-efficient production.
- **Opportunities:** Efficiency gains, renewable energy adoption and product innovation to meet consumer demand for sustainable and healthy food.

Data Limitation and Methodological Challenges

Jinlong was able to qualitatively identify and describe these risks and opportunities. However, Jinlong cannot reliably separate the financial effects attributable to each individual risk or opportunity due to the interconnected nature of impacts. For example, installing high-efficiency biomass boilers at several production facilities simultaneously addresses both transition risks (by reducing fossil fuel dependence and carbon emission) and physical risks (by ensuring production continuity when extreme weather disrupts natural gas supplies).

Jinlong has also determined that beyond the five-year horizon, the level of measurement uncertainty involved in estimating financial effects is so high that the resulting quantitative information would not be useful. This assessment is based on:

- climate modelling uncertainty compounds significantly over long time horizons;
- increasing variability in policy scenarios and technological developments;
- limited reliability of supplier and commodity market projections beyond five years; and
- the resulting quantitative ranges would be so wide that they provide no meaningful decision-useful information to users.

Application of financial effects relief (HKFRS S2.19 and S2.21)

Given the challenges stated above, Jinlong applied the financial effects relief as follows:

- **Current period 20X5:** While Jinlong has experienced some commodity price volatility and weather-related supply chain disruptions during the period, management has determined that these impacts cannot be reliably attributed to climate change as distinct from normal business volatility and broader economic factors. Accordingly, it discloses that the financial effects of climate-related risks and opportunities have not yet manifested in a separately identifiable manner in the current reporting period.
- **Near term within five years:** Jinlong estimates that over the next five years climate-related factors could increase annual raw material and logistics costs by approximately 3-5% of costs of goods sold, and require transition investment of HK\$30-50 million, partially offset by annual energy efficiency savings of approximately 10-15%.

- **Beyond the five-year horizon, Jinlong:**

- explains why a specific financial quantification is not possible at this time; and
- provides qualitative information on how each of the identified physical risks and transition risks could affect its financial statements such as the following:

Climate-related risks and opportunities	Financial statements line items likely to be affected
Extreme weather impacts on crops and transport	<ul style="list-style-type: none"> • Cost of goods sold: potential substantial increases due to crop yield volatility, supply chain disruptions and premium pricing for climate-resilient sourcing. • Inventory: risk of obsolescence, spoilage and write-downs due to supply disruptions; potential need for larger safety stock provisions increasing carrying costs. • Provisions and contingent liabilities: recognition of provisions for facility relocations, supply chain restructuring and insurance deductibles from climate-related damages.
Efficiency gains and product innovation	<ul style="list-style-type: none"> • Revenue: potential increases from sustainable product premiums and expanded market access to environmentally-conscious consumer segments. • Property, plant and equipment: significant investments in energy-efficient production equipment and renewable energy infrastructure; potential accelerated obsolescence and drop in value of existing equipment due to the introduction of new production technology. • Cash flow from financing activities: potential access to green financing instruments and sustainability-linked loans with favourable terms, affecting borrowing costs.

1.5

[HKFRS S1.73,
B34-35]

Commercially sensitive information exemption

An entity is not required to provide commercially sensitive information required by HKFRS SDS about a sustainability-related opportunity. Under HKFRS S1, information of a sustainability-related opportunity is determined as commercially sensitive if and only if:

- (a) information about the opportunity is not already publicly available;
- (b) disclosure of that information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity; and
- (c) it is impossible to disclose that information in a manner, for example, at an aggregated level, that would enable the entity to meet the objectives of the disclosure requirements without prejudicing seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity.

To apply this exemption, the economic disadvantage to an entity has to be serious. There is no prescribed set of criteria on what constitutes “prejudice seriously”. In considering what constitutes “prejudice seriously”, these non-exhaustive factors and questions may be relevant.

Considerations and relevant questions



[HKFRS S1.B36]

If an entity elects to use this exemption, it is required, for each item of information omitted,

- (a) disclose the fact that it has used the exemption; and
- (b) reassess, at each reporting date, whether the information qualifies for the exemption.

[HKFRS S1.B37]

Furthermore, an entity is prohibited from using the commercially sensitive information exemption in relation to a sustainability-related risk or as a basis for broad non-disclosure of sustainability-related financial information.

Example 1.4



Applying the commercial sensitivity relief to a climate-related opportunity

SinoCloud Intelligence Co., Ltd (“SinoCloud”) is a mainland Chinese technology company specialising in artificial intelligence (“AI”)-driven cloud services and data centre operations, serving large enterprises and government clients across China and other Asian countries.

SinoCloud is developing a proprietary, AI-driven energy optimisation platform. This new platform, which leverages advanced machine learning to dynamically manage cooling and power loads, is expected to significantly reduce energy consumption and operating costs in the entity’s data centres – creating a major competitive advantage in the rapidly evolving cloud services market.

In applying the commercial sensitivity relief:

- Under HKFRS SDS, SinoCloud is required to disclose under HKFRS S2.15(b) the anticipated financial effects of climate-related opportunities such as this new technology. However, the disclosure of specific financial effects such as projected cost savings, additional capital investments and revenue would seriously prejudice the entity’s economic interests, as the opportunity is not yet public and is central to its growth strategy.
- The entity considers whether it can disclose the information in a more aggregated or generalised manner, but determines that even aggregated information would risk revealing commercially sensitive strategies.
- Therefore the entity omits the specific quantitative financial effects from its climate-related financial disclosures, in reliance on the commercial sensitivity relief permitted under HKFRS S1.

1.6

[HKFRS S1.72]

Statement of compliance with HKFRS SDS

An entity shall include an explicit and unreserved statement of compliance if it has prepared its sustainability-related financial disclosures in compliance with all requirements under HKFRS SDS.

Using transition reliefs—such as the “climate-first” approach in the first reporting period—does not prevent an unreserved compliance statement.

Entities applying only some HKFRS SDS requirements cannot claim full compliance. For example, if an entity extends the “climate-first” relief beyond the first year and omits disclosure of material information about the non-climate risks and opportunities that could reasonably be expected to affect the entity’s prospects, it is not in compliance, as all material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects must be disclosed.

Entities voluntarily applying only parts of HKFRS SDS may explain in their disclosures how and to what degree they have applied HKFRS SDS, reasons for phased disclosures beyond allowed transition reliefs, using language suitable to their circumstances⁵.



Mechanisms for application are not permanent

The flexibility to use first-year transition reliefs, proportionality mechanisms and other reliefs is intended as a practical starting point for entities that are applying HKFRS SDS – not a permanent state. Entities are expected to enhance their capabilities, data quality and internal expertise over time. As skills, capabilities and resources grow, so should the depth and reliability of sustainability-related financial disclosures.

⁵ Adapted from the educational material “Voluntarily applying ISSB Standards – A guide for preparers”, which provides guidance to help entities communicate their progress in applying ISSB Standards.



According to the Hong Kong SAR Government's Roadmap on Sustainability Disclosure, HKEX ESG Code is an interim step for listed issuers to start climate reporting, with an expectation for the adoption of HKFRS SDS from 2028 under a proportionate approach.

Are the proportionality mechanisms in HKFRS SDS available in HKEX ESG Code? Is applying the proportionality mechanisms in HKFRS SDS the same as "comply or explain" provisions in HKEX ESG Code?

All proportionality mechanisms in HKFRS SDS are available in HKEX ESG Code.

"Comply or explain" provision under HKEX ESG Code and the various application mechanisms in HKFRS SDS are different concepts.

The **proportionality mechanisms** in HKFRS SDS are designed to help companies address specific challenges – such as resource constraints, data availability and specialist expertise – when preparing sustainability-related financial disclosures. These mechanisms require companies to use all reasonable and supportable information available at the reporting date without undue cost or effort, and to apply requirements commensurate with their skills, capabilities and resources. They provide practical relief for certain disclosure requirements but do not exempt companies from making disclosures altogether. Examples 1.1, 1.2A and 1.2B have illustrated the application of these mechanisms offered by HKFRS SDS.

The **"comply or explain"** provision in HKEX ESG Code requires an issuer to either comply with and report on specific climate-related disclosures requirements, or give a considered explanation for any non-disclosure. The issuer is also encouraged to provide information on its work plan, progress and timetable for making the required disclosure⁶. Failure to disclose information called for without explanation is a breach of Main Board Listing Rules.

If HarbourBuild is to use the "comply or explain" provision, it may provide the following disclosure:

"For the reporting period ended 31 December 2025, we have not disclosed certain quantitative financial effects of both climate-related risks and opportunities as required under HKEX ESG Code. This is because, after careful consideration, the Company determined that it currently lacks sufficient internal expertise. In line with the "comply or explain" requirement, we provide this explanation and confirm that we are actively enhancing our capabilities in assessing climate resilience. The Company has initiated a work plan to build internal expertise and data systems, and aims to provide the required disclosures within the next two reporting cycles."

⁶ Paragraph 16(2) of Part D of HKEX ESG Code.

2 Reporting Entity

Objectives

To provide guidance on the determination of the reporting entity and the implications for the scope of sustainability-related financial disclosures

HKICPA educational materials and other resources

- [FAQs on HKFRS Sustainability Disclosure Standards](#)

2.1

Introduction

[HKFRS S1.20, B38]

Companies are required to provide sustainability-related financial disclosures for the same reporting entity as the financial statements. If a parent prepares consolidated financial statements, the reporting entity is the parent and its subsidiaries.

This chapter introduces how the definition of reporting entity relates to the connection between sustainability-related financial disclosures and financial statements, and provides guidance on considering the scope of disclosure.

2.2

Connection with financial statements

Having the same reporting entity allows the financial statements and sustainability-related financial disclosures to provide a coherent and complementary picture of an entity. It also helps to ensure that the sustainability information being communicated will be aligned and consistent with the information being communicated in the financial statements. More guidance on the requirements regarding connected information will be provided in Chapter 9 of the HKFRS SDS Guidance Part 2.

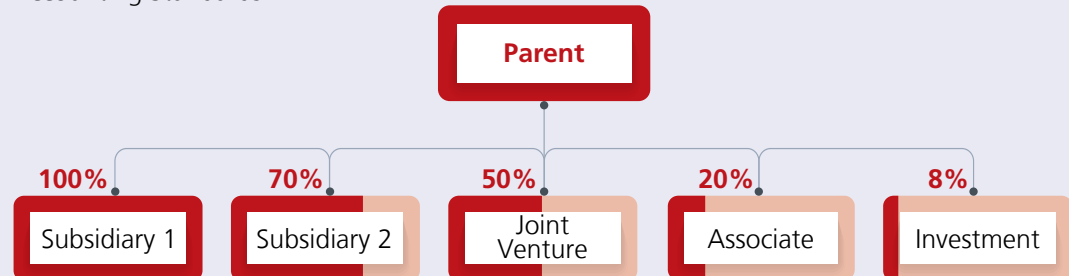
The reporting entity, however, needs to disclose broader information in sustainability-related financial disclosures beyond what is included in the financial statements. This includes details about sustainability-related risks and opportunities arising up and down its value chain, where relevant. Chapters 3 and 4 provide guidance to understand the concept of value chain and determine the material information for disclosure.

Example 2.1



Determining the reporting entity by a parent company

Parent has ownership interests in Subsidiary 1, Subsidiary 2, Joint Venture, Associate and Investment. It prepares consolidated financial statements in accordance with HKFRS Accounting Standards.



It prepares consolidated financial statements and sustainability-related financial disclosures for the same reporting entity as follows:

	Parent	Subsidiary 1	Subsidiary 2	Joint Venture	Associate	Investment
Accounting method in Parent's consolidated financial statements	Consolidation	Consolidation	Consolidation	Equity method	Equity method	Fair value method
Reporting entity of the consolidated financial statements	✓	✓	✓	✗	✗	✗
Reporting entity of the sustainability-related financial disclosures	✓	✓	✓	✗	✗	✗

While the reporting entity does not cover Joint Venture, Associate and Investment, this does not necessarily mean information about these entities will not be included in Parent's sustainability-related financial disclosures. If sustainability-related risks and opportunities arising from these entities affect the reporting entity's prospects, the related information may still need to be reported. See FAQ 2.1 for more discussion.



Ensuring consistency across general purpose financial reports

As the definition of reporting entity follows financial reporting, preparers of the sustainability-related financial disclosures should collaborate with those preparing the financial statements to ensure consistency across reporting. Additionally, any updates to the entities in scope should be aligned accordingly.

FAQ 2.1



Are joint ventures, joint operations, associates and investments part of the reporting entity if the related financial statements are consolidated financial statements prepared in accordance with HKFRS Accounting Standards? How to report information about them?

Associates, joint ventures and investments are excluded from the consolidated group, even though associates and joint ventures are accounted for in the consolidated financial statements using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*, and other investments are accounted for by applying HKFRS 9 *Financial Instruments*. Therefore, they are not part of the reporting entity.

[HKFRS S2.BC103]

In contrast, in a joint operation, an entity has rights to the assets and obligations for the liabilities related to the arrangement. In accordance with HKFRS 11 *Joint Arrangements*, the entity recognises, in relation to its interest in a joint operation, its share of those assets, liabilities, revenues and expenses in its financial statements. In other words, the related interest in a joint operation is accounted for as part of the consolidated group/reporting entity.

In applying HKFRS SDS, a reporting entity discloses information about sustainability-related risks and opportunities that could reasonably be expected to affect the reporting entity's (excluding associates, joint ventures and other investments) prospects. While associates, joint ventures and investments fall outside of the reporting entity, their interactions and relationships with the reporting entity make them part of the reporting entity's value chain. The reporting entity needs to disclose information relating to risks and opportunities arising from its value chain, where such information is material. For further discussion on the concept of value chain, please refer to Chapter 3.

[HKFRS S2.B27]

On GHG emissions disclosure, the reporting entity applies a different concept of organisational boundary in accordance with the GHG Protocol Corporate Standard. The measurement and disclosure of emissions from associates, joint ventures and other investments depend on the choice of approach (equity or control approach) used to consolidate GHG emissions. For related guidance, please refer to Chapter 7 of the HKFRS SDS Guidance Part 2.

Example 2.2



An industrial manufacturer's consideration of the scope of its sustainability-related financial disclosures

Precision Manufacturing Co., Ltd. ("Precision Manufacturing") is a Hong Kong-listed industrial manufacturer specialising in high-precision components and advanced materials for various industries, including automotive, electronics, medical devices and renewable energy. It serves a diverse range of customers globally.

Precision Manufacturing prepares both consolidated financial statements and sustainability-related financial disclosures for the company and its subsidiaries as a group ("the Group"). It has investments in associates and joint ventures that are accounted for in the consolidated financial statements using the equity method under HKFRS Accounting Standards.

The Group considers the scope of disclosures as exemplified by the aspects listed below:

Aspects	Example considerations for disclosure scope
Value chain (See Chapter 3)	<p>It considers the scope of its value chain by considering the Group's business model and external environment. For example,</p> <ul style="list-style-type: none"> • Business model: The Group continuously invests in research and development to stay ahead of technological trends. Joint ventures formed to develop and commercialise new technologies represent part of the Group's value chain.

Aspects	Example considerations for disclosure scope
Value chain (See Chapter 3)	<ul style="list-style-type: none"> • External environment: The Group considers the regulatory environment in jurisdictions in which it sells its products. For example, a tightening of end-of-life vehicle regulation in Europe affects the Group's operations, requiring it to ensure that its products sold to automotive manufacturers in Europe comply with relevant requirements, including the use of recyclable materials and avoidance of hazardous substances. <p><i>Note: This example has not covered all aspects of the value chain.</i></p>
Effects of sustainability-related risks and opportunities on the financial statements	<p>In preparing for the disclosure requirement of HKFRS S1.34, Precision Manufacturing considers how sustainability-related risks and opportunities impact the consolidated financial statements – the Group's financial position, financial performance and cash flows – for the current and future periods.</p> <p>For example, the Group invested in replacement equipment that reduces the emission of harmful pollutants and lowers fuel costs. The Group incurred initial capital expenditures in the current year. It ensures that the monetary amount disclosed in its sustainability-related financial disclosures is consistent with the recognised figures in the Group's consolidated financial statements.</p> <p>With this strategic decision on equipment investment, the Group anticipates long-term savings and reduced risk related to regulatory enforcement. It prepares disclosures that connect the reductions in air emissions to the changes in its:</p> <ul style="list-style-type: none"> • balance sheet, e.g. capital expenditures; and • income statement, e.g. annual cost savings from fuel and maintenance.
Industry-based metrics	<p>HKFRS S2.32 requires the disclosure of industry-based metrics. Precision Manufacturing refers to the <i>Industry-based Guidance on Implementing HKFRS S2</i> ("HKFRS S2 Industry-based Guidance") and determines to disclose some of the applicable industry-based metrics related to energy management for the Industrial Machinery & Goods industry.</p> <p>It prepares the metrics accordingly, covering Precision Manufacturing and its subsidiaries within the scope. It also covers information in the value chain where such information is material.</p>
GHG emissions (See Chapter 7 of the HKFRS SDS Guidance Part 2)	<p>For the purpose of calculating its GHG emissions, the Group defines its organisational boundary based on the measurement approach allowed under the GHG Protocol Corporate Standard.</p>



It is noted that the reporting boundary concept in HKEX ESG Code differs from the definition of reporting entity in HKFRS S1⁷. How can listed issuers prepare for the adoption of HKFRS SDS in this respect?

According to HKEX ESG Code, listed issuers may decide which entities or operations to include in their ESG reports⁸. The reporting boundaries of the listed issuers' ESG reports are not required to be the same as their financial statements.

HKFRS S1 does not give entities the option to choose the entities to be included or excluded from sustainability-related financial disclosures. As mentioned above, all entities covered by the consolidated financial statements must be included.

To prepare sustainability-related financial disclosures, the reporting entity identifies the sustainability risks and opportunities based on **the entire consolidated group** (i.e. the parent and all consolidated subsidiaries). It does not exclude entities based on factors such as size, geographical region, line of business or business function.

To prepare for the adoption of HKFRS SDS, entities that follow HKEX ESG Code and/or other ESG reporting frameworks should review the entities covered in their ESG reports and compare them with those included in the reporting entity (i.e. the scope of consolidation in financial reporting).

However, when considering the scope of disclosure, the reporting entity is only required to disclose **material information** about the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. Therefore, the reporting entity may not need to engage in a high level of additional work if it is considered that the currently excluded entities/operations are not exposed to those sustainability-related risks and opportunities or if there is no material information to disclose about those sustainability-related risks and opportunities. See Chapter 4 for more guidance about determining material information for disclosure.

Example 2.3



Inclusion of a subsidiary in the ESG reporting scope

Precision Manufacturing has a subsidiary, Precision Manufacturing Vietnam ("PMV"), which operates an electronics plant in Vietnam. PMV contributes to approximately 3% to Precision Manufacturing's total operational capacity and about 1% to the Group's total revenue.

Precision Manufacturing prepares its ESG report following HKEX ESG Code. It discloses that the reporting boundary includes the company and its subsidiaries operating in various regions and countries, with the exception of PMV, which it considers to represent an insignificant portion of the Group's operations and finances.

To move towards complying with HKFRS SDS, Precision Manufacturing prepares to include PMV in the reporting scope as PMV is treated as part of its reporting entity. It evaluates the sustainability-related risks and opportunities relevant to PMV's operations and considers there is associated material information to be disclosed. It develops a plan for information and data collection, which involves reviewing and aligning PMV with the Group's reporting framework, training staff, and implementing data controls and governance. In addition, Precision Manufacturing embeds the process of updating and aligning the list of entities in scope of sustainability-related financial disclosures with financial statements in the ESG reporting process to ensure consistency.

In the case where it is considered that the information about sustainability-related risks and opportunities relevant to PMV is not material, Precision Manufacturing would not include such information in the Group's sustainability-related financial disclosures even though PMV is still part of the reporting entity.

⁷ Q1.4 of HKICPA's FAQs on HKFRS Sustainability Disclosure Standards.

⁸ Paragraph 15 of Part B of HKEX ESG Code requires 'A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change'.

Example 2.4



Reporting of information about an associate

Unity Group is a diversified conglomerate that runs hotel chains as part of its business. It prepares its ESG report following HKEX ESG Code and Global Reporting Initiative (“GRI”) Standards.

The entities included in the ESG report are the company, its subsidiaries and a hotel operation that is the group’s associate – Unity Hotel Australia (“UHA”). UHA is not a listed company and does not issue its own ESG report.

Unity Group also reports on the management and performance of sustainability matters of UHA in its ESG report because:

- It sees a growing demand from its stakeholders, such as investors, customers, employees and local communities, for transparent and accountable business practices, including those of UHA.
- UHA represents a brand of the Group and ESG disclosures provide a way to build and maintain a positive brand image.
- It can decide which entities or operations to include in its ESG report under HKEX ESG Code and GRI Standards.

Unity Group plans to prepare its ESG report following both GRI Standards and HKFRS SDS when the latter comes into effect, to continue meeting the information needs of a wide range of stakeholders beyond investors.

Under HKFRS SDS, UHA is not part of the reporting entity for Unity Group’s sustainability-related financial disclosures, but part of Unity Group’s value chain through its relationship and interactions with the Group. When preparing disclosures required by HKFRS SDS, Unity Group defines the reporting entity as the company and its subsidiaries and prepares disclosures according to this scope. Information about sustainability-related risks and opportunities arising from its value chain (including UHA) is included where material.

Unity Group works to identify the differences between the requirements of HKFRS SDS and GRI Standards and plans its reporting. HKFRS S1.62 requires an entity to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by the additional information it reports to meet other requirements of GRI Standards.

3

Value Chain

Objectives

To enable understanding of the concepts of value chain, resources, relationships, dependencies and impacts, and provide step-by-step guidance on how to determine the scope of value chain

ISSB educational materials and other resources

- [Integrated Reporting Framework](#)
- [Sustainability-related risks and opportunities and the disclosure of material information](#)

3.1

Introduction

Understanding and mapping an entity's value chain is fundamental to effective sustainability reporting under HKFRS SDS. The value chain extends beyond an entity's direct operations to include joint ventures, associates, investments as appropriate, as well as upstream suppliers, downstream customers and the broader external environment in which the entity operates.

[HKFRS S1.3, 17]

In order to identify and disclose material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects (cash flows, access to finance or cost of capital over the short, medium or long term), (for the purpose of this guidance referred to as "relevant sustainability-related risks and opportunities"), the entity is required to determine the scope of its value chain, including its breadth and composition.

[HKFRS S1.2, B2]

This section explains the concepts of:

- value chain;
- resources and relationships; and
- dependencies and impacts,

which aims to help entities understand and map their value chains. This serves as the critical foundation for the next chapter which will discuss how entities identify relevant sustainability-related risks and opportunities that arise from these value chain interactions and what material information about these risks and opportunities requires disclosures.

Entities are recommended to read "[Sustainability-related risks and opportunities and the disclosure of material information](#)" for further guidance and examples on these concepts.

3.1.1

The definition of value chain

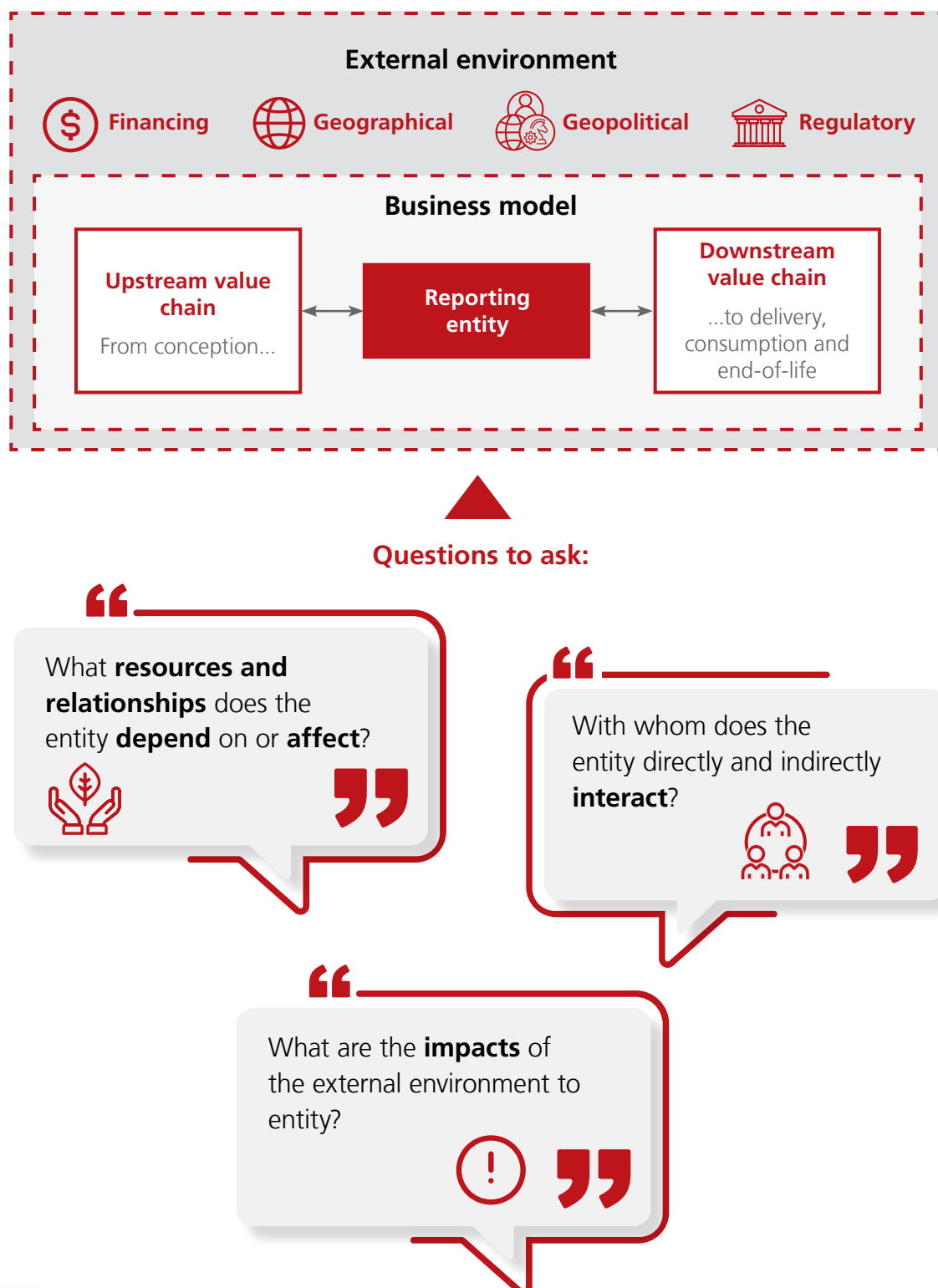
The definition of "value chain" in HKFRS SDS is the full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates.

A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships:

- in the entity's operations, (e.g. human resources);
- those along its supply, marketing and distribution channels, (e.g. materials and service sourcing and product and service sale and delivery); and
- the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Figure 3.1

Understanding and mapping the value chain



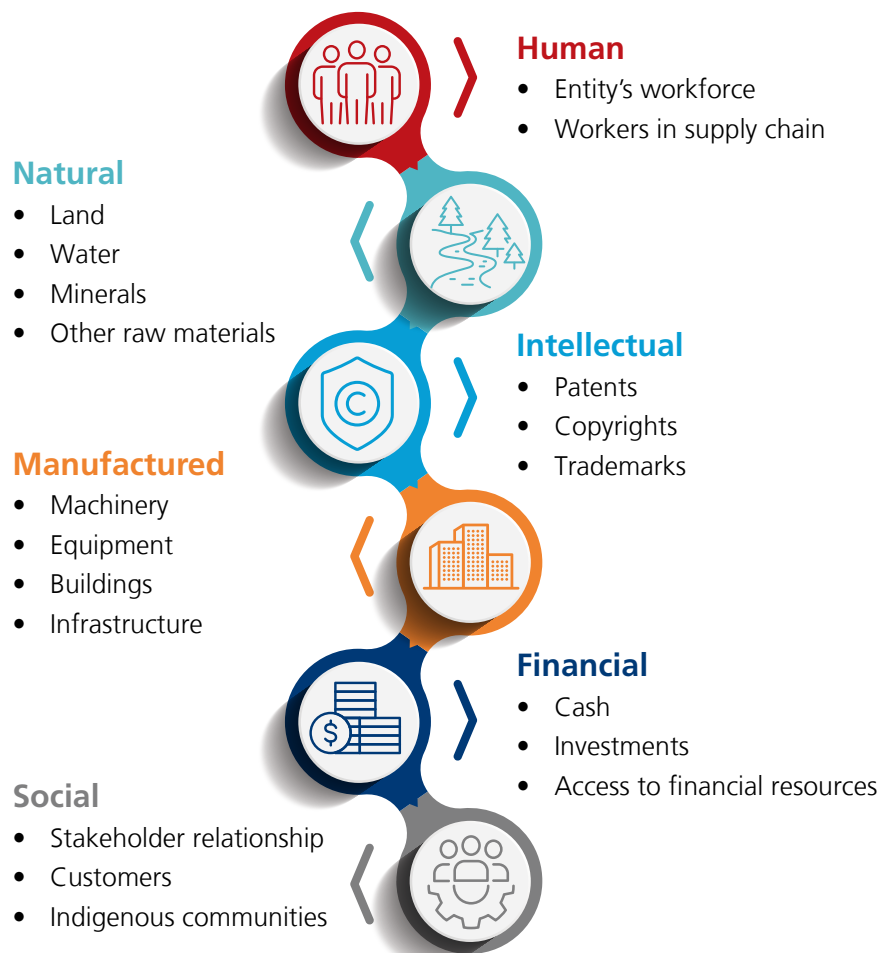
3.1.2

The concept of resources and relationships

Resources and relationships that an entity depends on and affects throughout its value chain can take various forms. This concept of resources and relationships is similar to the notion of “the capitals” in the [Integrated Reporting Framework](#), illustrated in Figure 3.2 below.

Figure 3.2

Forms and examples of resources and relationships of an entity⁹



[HKFRS S1.B4]

Resources and relationships can be internal such as the entity's own workforce, organisational know-how and intellectual property, or external such as access to natural resources, relationships with suppliers and distributors. Furthermore, these resources and relationships include but are not limited to the resources and relationships recognised as assets in the entity's financial statements.

To determine the scope of the value chain, an entity needs to understand the resources and relationships it depends on or affects through its activities.

⁹ Adapted from the educational material “Sustainability-related risks and opportunities and the disclosure of material information”.

3.1.3

[HKFRS S1.B2]

The concept of dependencies and impacts

An entity shall consider how it directly and indirectly depends on and affects its resources and relationships. These dependencies and impacts contribute to the preservation, regeneration and development of resources and relationships, or to their degradation and depletion.

The table below illustrates that an entity’s activities and outputs can affect resources and relationships on which it depends.

Table 3.1 An entity’s dependencies and impacts on resources and relationships as a result of the entity’s activities and outputs

Entity’s activities and outputs	Entity’s dependency on a resource and relationship to generate cash flows	Entity’s impact on a resource and relationship through its activities and outputs
The entity procures wheat from local farmers in Henan Province for food production.	The entity produces packaged snacks and depends on wheat to operate its business model.	The entity’s high demand for wheat might contribute to overharvesting and soil depletion of local farms in Henan Province.
The entity offers last-mile delivery services.	The entity depends on drivers to execute its core activities and generate cash flows through efficient and reliable delivery services.	The entity improves drivers’ well-being and performance through its safety management and ongoing driver training.

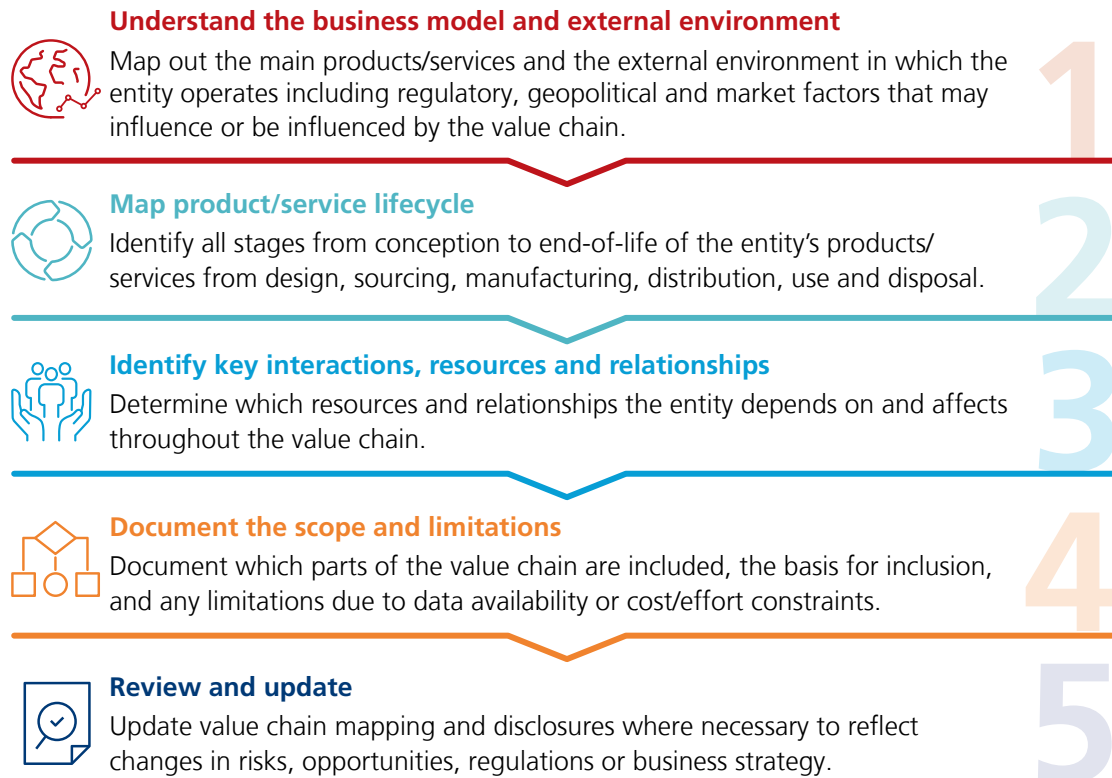
3.2

Steps to determine the scope of the value chains

While HKFRS SDS do not require an entity to use specific approaches or methods to determine its value chain, the following is a possible approach that entities may consider in determining the scope of their value chains.

Figure 3.3

Step-by-step approach for determining the scope of the value chains



The above suggested steps are only one of the possible ways to assess an entity's scope of value chain. An entity may determine its suitable approaches to assess its scope of value chain based on different facts and circumstances.

[HKFRS S1.B6(b)]

Apply proportionality mechanism

When assessing the scope of the value chain, an entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort but is not required to undertake an exhaustive search.

3.2.1

Considerations when assessing the scope of the value chain

When assessing the scope of the value chain under HKFRS SDS, entities are recommended to keep the following considerations in mind for practicality:

- Leverage existing data:** Start with existing internal records (e.g. procurement systems, supplier contracts) and external data (e.g. industry emission factors, regional water scarcity indices).
- Balance the cost and effort to be incurred by the entity and the benefits of the resulting information for primary users:** After the use of existing data, consider the benefit of the resulting information to primary users when searching for more information that is not readily available for assessing the scope of the value chain. For example, due to the significant contribution to GHG emissions, a logistics group may focus on identifying tier 2 relationships from its fuel providers and major e-commerce clients.

Example 3.1



A food manufacturer's evaluation of the scope of the value chain

Jinlong is a food manufacturer in the Chinese Mainland that produces packaged snacks and beverages. In determining the scope of its value chain, Jinlong has set out the following:

Step 1: Understand the Business Model and External Environment

Jinlong sources wheat and sugar from farms in Shandong and Henan provinces and processes them in factories in Guangdong. The external environment includes water scarcity in northern China, evolving food safety and sustainability regulations and increasing consumer demand for sustainable products.

Step 2: Map Product/Service Lifecycle

Jinlong maps the lifecycle of its products:

- **Upstream:** Sourcing wheat and sugar from farms, purchasing packaging materials from suppliers in China and Southeast Asia.
- **Own operations:** Processing and packaging in Guangdong factories.
- **Downstream:** Distribution to supermarkets and e-commerce platforms, product use by households and end-of-life management of packaging waste through municipal waste systems.

Step 3: Identify Key Interactions, Resources and Relationships

Jinlong identifies interactions, resources and relationships along its value chain by leveraging existing data. It then focuses on the key resources and relationships it depends on and/or affects when searching for more information for assessing the scope of the value chain:

- **Key resources:** Water for irrigation and beverage production (critical in Shandong province), agricultural land, energy for processing and packaging materials.
- **Key relationships:** Long-term contracts with major farms (top 20% by volume), agreements with fertiliser suppliers, logistics providers for distribution, partnerships with retailers and relationships with local waste management companies.

Step 4: Document the Scope and Limitations

Jinlong documents:

- The value chain scope includes, for example, water scarcity in northern China, evolving food safety and sustainability regulations, agricultural suppliers, packaging vendors, logistics partners, downstream retail and waste management channels.
- Limitations in information collection from tier 2 and tier 3 relationships are clearly noted, with a commitment to improve value chain coverage in future reporting periods.

Step 5: Review and Update

Jinlong commits to reviewing its value chain scope on a timely basis considering changes in circumstances, e.g. regulations, supply chain dynamics and stakeholder expectations. For example, if new regulations require more granular traceability of agricultural inputs, the entity will expand its data collection accordingly.

Example 3.2



A logistic business' evaluation of the scope of the value chain

The logistics division of Unity Group is evaluating its value chain following the 5-step approach:

Step 1: Understand the Business Model and External Environment

The logistics division offers integrated freight forwarding, warehousing and last-mile delivery services across the Chinese Mainland, Hong Kong SAR and Southeast Asia.

It is facing increasing demand for e-commerce, evolving cross-border customs regulations, heightened geopolitical tensions and growing pressure to decarbonise transport fleets.

Step 2: Map Product/Service Lifecycle

The logistics division documents:

- **Upstream:** Procurement of vehicles, fuel, IT systems and warehouse equipment from global suppliers.
- **Own operations:** Operation of logistics hubs, warehouses and vehicle fleets for freight consolidation, storage and distribution.
- **Downstream:** Delivery to retail stores, e-commerce customers and reverse logistics (returns management).

Step 3: Identify Key Interactions, Resources and Relationships

The logistics division identifies interactions, resources and relationships along its value chain by leveraging existing data. It then focuses on key resources and relationships it depends on and/or affects when searching for more information for assessing the scope of the value chain:

- **Key resources:** Diesel and electric vehicles, warehouse infrastructure, IT and tracking systems, skilled drivers and warehouse staff.
- **Key relationships:** Global vehicle and equipment suppliers, fuel (covering 80% of fleet emissions) and energy providers, e-commerce and retail clients (particularly in the regions that are affected by the heightened geopolitical tensions), local delivery partners and government agencies for customs and transport regulation.

Step 4: Document the Scope and Limitations

The logistics division documents:

- The value chain scope, methodology for information collection and limitations.
- Plans to expand value chain coverage to more subcontractors.

Step 5: Review and Update

The logistics division commits to reviewing the value chain scope and information sources on a timely basis, adapting to regulatory changes, business growth and stakeholder expectations. It outlines steps to expand value chain coverage to more subcontractors in the coming years.



How far up and down the value chain should one go?

Under HKFRS SDS, entities are required to look at their entire value chains – from where raw materials come from (upstream), through their own operations, to how products are used and disposed of (downstream) and the external environment in which they operate. The value chain includes all activities, resources and relationships that are important to how the entity creates value and delivers its products or services.

However, the standards recognise that it is not always practical for every entity to collect detailed information from every supplier, value chain partner or customer. Instead, an entity may use the proportionality mechanism as described in section 1.3 in assessing its value chain.

Some practical points to consider:

- **Starting with what you know:** an entity may begin by focusing on their tier 1 suppliers or value chain partners, as the information is often readily available.
- **Look beyond size:** when searching for more information for assessing the scope of the value chain, an entity should also look at other parts of the value chain where sustainability-related risks and opportunities could reasonably be expected to affect the entity's prospects – not just the relationships from the largest suppliers or value chain partners.

Take Jinlong from Example 3.1 as an example, it may start by collecting data from its largest suppliers of wheat and sugar, as these account for most of its raw material purchases. At the same time, it identifies a smaller supplier of a key ingredient in a region experiencing severe drought, where an alternative source of this key ingredient is hard to find. Even though this supplier is not among the largest, the risk of water scarcity could disrupt supply and affect the entity's ability to meet customer demand—potentially leading to lost sales or increased costs. Therefore, the entity considers the information of indirect relationships from this supplier could be useful for primary users.

In summary, entities are required to consider their whole value chains, but focus information collection on areas where risks and opportunities could reasonably be expected to affect their prospects. HKFRS SDS require entities to use all reasonable and supportable information but do not require exhaustive searches. Entities should also take into account the considerations as stated in section 3.2.1 when assessing the scope of their value chains. This approach supports the quality and reliability of disclosures for investors and makes sustainability reporting more practical for businesses.



How to 'improve' value chain considerations over time?

Improving how an entity considers value chain risks and opportunities is an ongoing process that should evolve as the business and reporting capabilities grow. HKFRS SDS encourage companies to use the best information available at the time, but also to continuously seek better data and deeper insights.

Key steps to improve value chain considerations:

- **Expand data collection:** As the business matures, gradually collect more detailed information from a wider range of suppliers, customers and partners - especially those where risks or opportunities are most significant.
- **Strengthen relationships:** Build closer relationships with key value chain partners to gather better information and collaborate on sustainability improvements.
- **Use new tools and technology:** Invest in digital tools, data management systems, or third-party audits to improve the accuracy and completeness of value chain data.
- **Review and adapt:** Regularly review value chain mapping and data collection methods. Update approach as circumstances change and new risks or opportunities emerge.
- **Disclose progress:** Be transparent with stakeholders about where an entity's value chain analysis is strong and where it is working to improve.

Take Unity Group from Example 3.2 as an example, it starts by tracking emissions from its own fleet and largest subcontractors. Over time, it introduces digital tracking for all vehicles, partners with third-party auditors for smaller subcontractors and expands its analysis to include customer feedback on sustainable delivery options. Each year, it reviews its progress and adjusts its approach as needed.

Improving value chain considerations over time supports better disclosures for investors and helps businesses manage relevant sustainability-related risks and opportunities more effectively.

4

Sustainability-related Risks and Opportunities and Materiality

Objectives

To provide guidance on identifying sustainability-related risks and opportunities and highlight key factors that entities should consider when determining material information for disclosure

ISSB educational materials and other resources

- [Sustainability-related risks and opportunities and the disclosure of material information](#)
- [Use IFRS Sustainability Disclosure Standards and sources of guidance referred to in IFRS S1 to identify sustainability-related risks and opportunities](#)
- [Using ISSB Industry-based Guidance when applying ISSB Standards](#)
- [TIG – Agenda Paper 2 September 2024: Identification of sustainability-related risks and consideration of risk mitigation activities](#)
- [Using the SASB Standards to meet the requirements in IFRS S1](#)

HKICPA educational materials and other resources

- [FAQs on HKFRS Sustainability Disclosure Standards](#)

4.1

Introduction

[HKFRS S1.3, 17]

Sustainability-related risks and opportunities arise from an entity's interactions with stakeholders, society and the environment across its value chain. Under HKFRS SDS, entities are required to disclose **material information** about the relevant sustainability-related risks and opportunities. This chapter builds on value chain mapping in Chapter 3 to guide entities in identifying relevant sustainability-related risks and opportunities (see section 4.2), then assessing materiality within these relevant sustainability-related risks and opportunities and preparing investor-focused disclosures (see section 4.3).

Key concepts:

- **Materiality ≠ Material disclosure topics:** HKFRS SDS do not set out requirements for identifying "material disclosure topics" or materiality assessment. The definition of "materiality" in HKFRS SDS is an entity-specific characteristic of information. It is applied to determine which information to provide about relevant sustainability-related risks and opportunities to meet the information needs of primary users. HKFRS SDS focus on material information about relevant sustainability-related risks and opportunities that influences investor decision.

[HKFRS S1.B6(a)]

- **Proportionality:** Entities identify relevant sustainability-related risks and opportunities using all reasonable and supportable information available at the reporting date without undue cost or effort.

[HKFRS S1.B11]

- **Dynamic process:** Entities are to reassess relevant sustainability-related risks and opportunities as business models, value chains, or external conditions change.

Disclosure of relevant sustainability-related risks and opportunities:

[HKFRS S1.30]

To enable primary users to understand the relevant sustainability-related risks and opportunities, entities are required to disclose the following information:

- a description of the relevant sustainability-related risks and opportunities, including the time horizon over which the effects of each of those risks and opportunities could reasonably be expected to occur; and
- how the entity defines short, medium and long term and how these definitions are linked to strategic planning horizons.

[HKFRS S1.44]

In addition, HKFRS S1 also requires disclosures of the processes and related policies that entities use to identify, assess, prioritise and monitor sustainability-related risks and opportunities. An important part of these requirements includes reporting on how risk management activities are integrated into overall risk management processes.

4.2

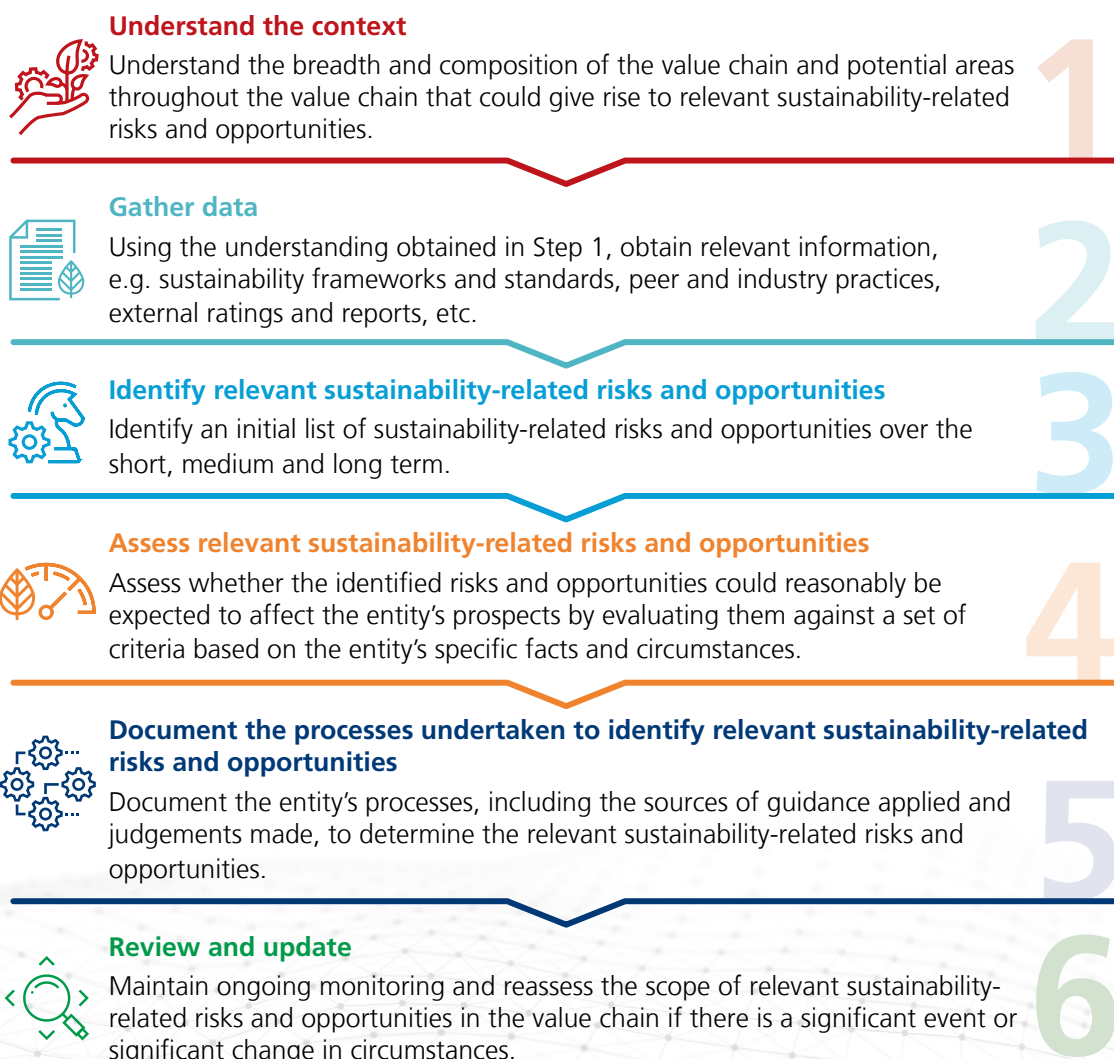
Steps to identify relevant sustainability-related risks and opportunities

HKFRS SDS do not require that an entity uses a specific approach or method to identify sustainability-related risks and opportunities; however, HKFRS SDS do require entities to consider specific sources of guidance. Figure 4.1 below illustrates one example approach¹⁰. Entities may implement other approaches tailored to their specific circumstances.

The process depicted in Figure 4.1 should not be interpreted as strictly sequential or prescriptive. Certain steps may be iterative, while others might be integrated to the entity's particular circumstances.

Figure 4.1

Step-by-step approach for identifying relevant sustainability-related risks and opportunities



¹⁰ This approach applies equally to sustainability-related and climate-related risks and opportunities, as climate considerations form a critical subset of broader sustainability concerns.

Step 1



Understand the context

An entity maps dependencies and impacts across the value chain to identify relevant sustainability-related risks and opportunities.

- **Dependencies:** Resources and relationships critical to operations (e.g. water, skilled labour, key suppliers).
- **Impacts:** Effects of operations on society/environment (e.g. emissions, waste, labour practices).

These dependences and impacts contribute to the preservation, regeneration and development of those resources and relationships or to their degradation and depletion, giving rise to relevant sustainability-related risks and opportunities.

This initial context-setting step defines the scope for identifying relevant sustainability-related risks and opportunities. Please refer to Chapter 3 for details on how to apply these concepts.

Step 2



Gather data

After establishing context through understanding its value chain, an entity collects relevant information to identify sustainability-related risks and opportunities. An entity may begin by identifying existing sustainability-related risks that are already on management's radar by utilising its current risk management or business planning process, including information from its risk register and internal audit reports. The entity can also review other internal sources, such as supplier due diligence reports, to identify any additional risks in its supply chain.

[HKFRS S1.54, 55]

Beyond internal sources, an entity is required to apply HKFRS SDS and consider the applicability of the disclosure topics in the SASB Standards and may consider CDSB Framework Application Guidance, other relevant reporting standards or sector-specific and regional sustainability trends. Entities are recommended to read "[Using the SASB Standards to meet the requirements in IFRS S1](#)" for guidance on how to navigate the SASB Standards when identifying relevant sustainability-related risks and opportunities.

Entities may consult external resources, such as:

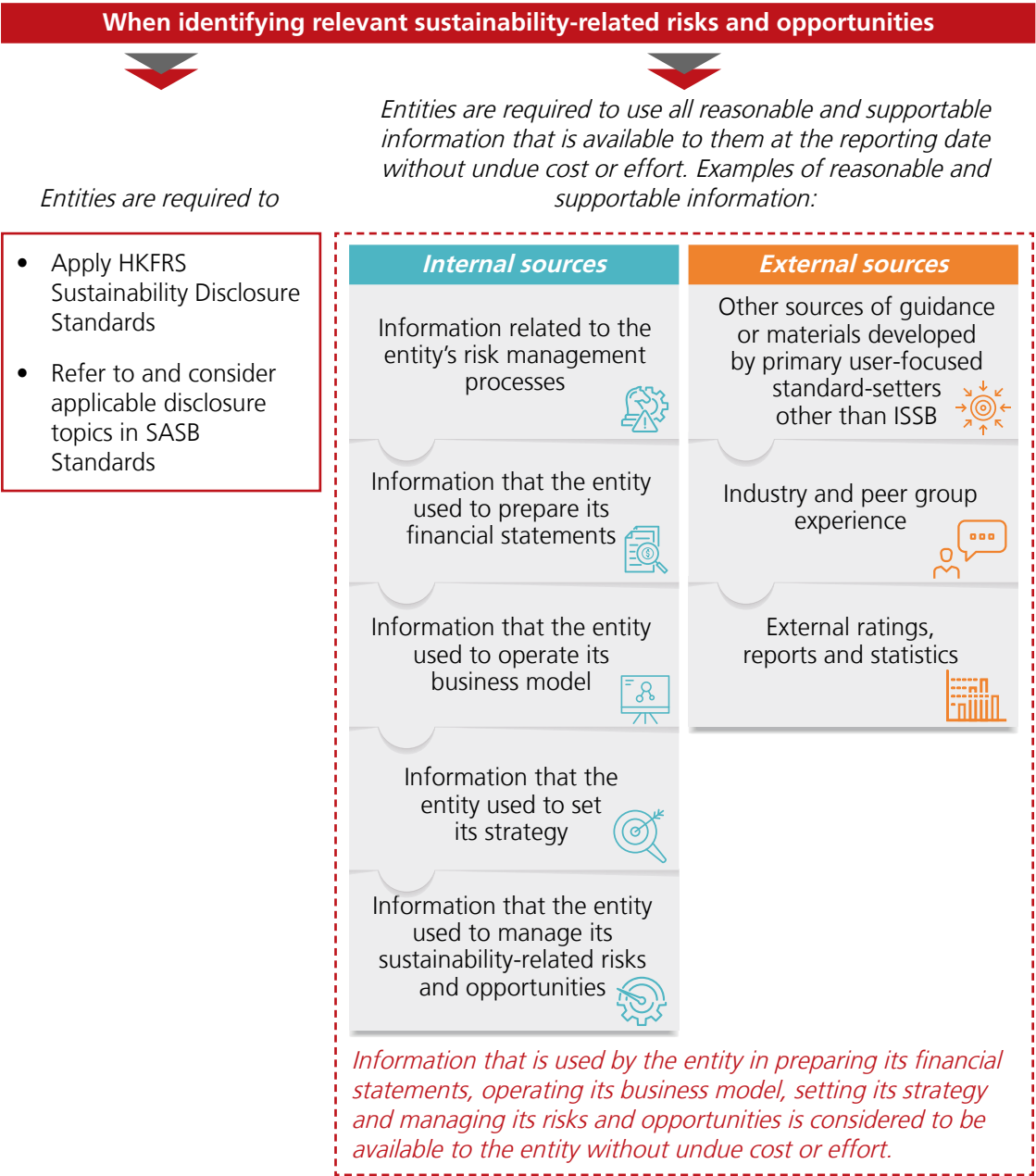
- publications on global sustainable development issues from international organisations such as the United Nations Environment Programme and the World Economic Forum;
- researches and guidance from relevant industry associations that highlight sector-specific concerns; or
- press releases from local government bureaus that signal upcoming regulatory changes or enforcement priorities.

By examining these information sources, an entity can identify risks and opportunities relevant to its business model and value creation.

Additionally, an entity may refer to materiality maps published by rating agencies to understand key focus areas for its sector, for example, MSCI's [ESG Industry Materiality Map](#) and Sustainalytics' [Material ESG Issues](#). These resources identify sustainability issues that are most relevant for different industries based on research and analysis done by the rating agencies. An entity may also analyse its credit rating and ESG rating reports to gain insights into specific investor concerns related to its unique circumstances. Reviewing research on emerging best practices in the industry also helps identify potential sustainability-related opportunities.

Figure 4.2 Sources of information for identifying relevant sustainability-related risks and opportunities

[HKFRS S1.54, 55, B6, B9]



Step 3



[HKFRS S1.30(b)]

Identify relevant sustainability-related risks and opportunities

Consider the time horizon

HKFRS S1 requires information about the time horizons over which the relevant sustainability-related risks and opportunities could reasonably be expected to occur. During this step, entities should consider effects across different time horizons — short, medium and long term. Entities need to clearly define what constitutes the short, medium and long term for their business context, as these may vary by industry, strategy and operating environment. Each risk or opportunity should be assessed for its potential to materialise over these different timeframes.

When setting time horizons, an entity may consider factors such as¹¹:

- **Strategic objectives:** entities may refer to their existing climate-related targets, e.g. science-based GHG reduction target.
- **Capital planning and investment cycle:** entities may consider their usual investment holding period and align their time horizons with their investment cycle.
- **Useful life of major assets:** entities may consider setting time horizons that match the useful life of their assets.
- **Industry nature:** property developers may use a longer time horizon as real estate and infrastructure project planning typically spans a decade, whereas consumer- or service-based industries such as telecommunications and software development may have a shorter planning time horizon.
- **Relevant policy jurisdictions:** entities may consider the jurisdictions that they operate, e.g. entities operating in Hong Kong may consider achieving carbon neutrality by 2050 to align with Hong Kong's Climate Action Plan 2050, and those with significant presence in China may also take into account China's dual carbon goals (i.e. to peak carbon emissions before 2030 and achieve carbon neutrality by 2060).
- **Nature of sustainability-related risks and opportunities:** entities may determine the time horizon based on the type of risks they would like to analyse, e.g. most climate-related physical risks tend to manifest over medium and long terms, longer time horizons may be necessary to capture the effects of chronic climate-related physical risks such as sea level rise and basin water scarcity.

¹¹ Adapted from Chapter 3 of HKEX IG.

Example 4.1



Entities from different industries determine their time horizons based on their specific circumstances

Property development

HarbourBuild has established the following time horizons for the identification of sustainability-related risks and opportunities:

- **Short-term (0-3 years):** Aligns with their budget cycles. This timeframe captures immediate regulatory changes, such as new building energy efficiency standards and market shifts like changing tenant preferences for green-certified spaces.
- **Medium-term (3-10 years):** Corresponds with their typical development timeline from land acquisition to project completion. This horizon captures risks related to increasingly stringent building codes, changing urban planning requirements and evolving climate resilience standards that would affect projects currently in design phase.
- **Long-term (10-30 years):** Matches the typical asset ownership and investment cycle for their properties. This extended timeframe allows analysis of climate-related physical risks like sea level rise affecting coastal developments and flooding in key markets.

HarbourBuild has considered their long-term corporate climate commitment (net-zero by 2050) when setting these horizons, along with the typical 30-year mortgage cycles of their residential customers and the service life of major building systems.

Technology

SinoCloud defines significantly different time horizons:

- **Short-term (0-2 years):** Aligns with their technology upgrade cycles and capital expenditure planning. This captures immediate risks like energy price volatility affecting operating costs and rapid shifts in consumer preferences.
- **Medium-term (2-5 years):** Corresponds with their technology planning and deployment cycles. This timeframe allows assessment of risks related to increasing cooling requirements for data centres due to rising temperatures, renewable energy transition planning and evolving regulatory requirements on data security.
- **Long-term (5-10 years):** Reflects their strategic business planning cycle and major infrastructure investments. This timeframe acknowledges the rapid pace of technological change in their industry while capturing longer term environmental impacts.

SinoCloud has considered the rapid evolution of cloud services and data centre operations, their equipment replacement cycles and the increasing climate-related physical and transition risks to their data centres when establishing these time horizons.

Develop an initial list of sustainability-related risks and opportunities

There can be **different approaches** to developing an initial list of sustainability-related risks and opportunities that have the potential to become relevant sustainability-related risks and opportunities. For instance, an entity's sustainability department may first compile an initial list of sustainability-related risks and opportunities based on the data gathered in Step 2 and then share it with relevant department heads across the organisation. These departments can evaluate how each identified risk or opportunity might specifically affect their areas of responsibility, providing context-specific insights on potential impacts. The sustainability department can then aggregate these assessments to refine the initial list of sustainability-related risks and opportunities.

Alternatively, an entity may start by having each department identify sustainability-related risks and opportunities with coordination by the sustainability department. The department heads can conduct initial assessments leveraging their knowledge and experience within their domains. These departmental assessments are then consolidated at the enterprise level, where the sustainability department, in collaboration with senior management, evaluates the sustainability-related risks and opportunities.



Cross-functional collaboration for identifying sustainability-related risks and opportunities

Identifying sustainability-related risks and opportunities requires cross-functional collaboration because these issues often involve complex relationships and interconnections. For instance,

- sustainability department has knowledge of emerging environmental and social issues;
- strategy and operational departments can advise on implications of those issues on the strategy and business models;
- finance department can facilitate understanding of the exposure of sustainability-related risks and opportunities in financial terms;
- investor relations department can provide perspective about investors' expectations; and
- risk management department can provide information on the current enterprise risk management process and risk register to integrate the identification of sustainability-related risks and opportunities within the existing risk management framework.

The example below shows how an entity, through understanding of its business model and external environment as well as its dependencies and impacts on resources and relationships, gathers relevant data for developing an initial list of sustainability-related risks and opportunities.

Example 4.2



Data gathering for developing an initial list of sustainability-related risks and opportunities

HarbourBuild gathers data from the following sources to develop an initial list of sustainability-related risks and opportunities.

Referring to Internal Sources

HarbourBuild leverages its existing risk management framework, which already monitors risks related to construction delays and regulatory compliance. The risk register reveals flooding as a potential concern for construction projects in coastal areas, potentially affecting construction timelines and property value.

Referring to Stakeholder Engagement Exercise

Based on its understanding of dependencies on construction materials identified in the value chain analysis, HarbourBuild also engages with its top five construction material suppliers to gather information on their sustainability practices and potential supply chain disruptions.

Referring to HKFRS SDS and Other Guidance

HarbourBuild applies HKFRS SDS and reviews the HKFRS S2 Industry-based Guidance, including *Volume 35 – Home Builders*, *Volume 36 – Real Estate* and *Volume 37 – Real Estate Services* to identify sustainability-related risks and opportunities. HarbourBuild also refers to and considers the applicability of the disclosure topics in the SASB Standards. Through reviewing the industry-based guidance, HarbourBuild recognises that the following disclosure topics are particularly relevant to its operations:

- Land Use & Ecological Impacts
- Workforce Health & Safety
- Design for Resource Efficiency
- Energy Management
- Water Management
- Management of Tenant Sustainability Impacts
- Climate Change Adaptation

In addition, HarbourBuild makes use of the CDSB Framework Application Guidance, including the [CDSB Framework Application Guidance for Biodiversity-related Disclosures](#) and the [CDSB Framework Application Guidance for Water-related Disclosures](#), to identify risks and opportunities related to biodiversity and water.

Referring to Industry and Peer Group Analyses

Having identified its geographical footprint through value chain analysis, HarbourBuild examines sustainability reports from peers operating in the same regions to identify sustainability-related risks and opportunities that these industry peers have disclosed.

In addition, HarbourBuild reviews recent real estate market research covering geographical regions in which it operates. This publicly accessible research identifies changing customer preferences regarding sustainable living spaces, revealing growing demand for energy-efficient buildings with lower utility costs across most markets.

Referring to External Rating, Reports and Statistics

HarbourBuild reviews external ESG ratings, such as MSCI's [ESG Industry Materiality Map](#) and Sustainalytics' [Material ESG Issues](#), to identify key issues assessed for entities in its sector. HarbourBuild identifies that its operations align with the 'Diversified Real Estate Activities' industry. These ESG ratings highlight the following key ESG issues for entities in the 'Diversified Real Estate Activities' industry:

- Opportunities in Green Building
- Health & Safety
- Product Safety & Quality
- Corporate Governance
- Stakeholder Governance

Through using all reasonable and supportable information available to the entity without undue cost or effort, HarbourBuild has developed the following initial list of sustainability-related risks and opportunities:

Sustainability-related risks and opportunities	Sources of information				
	Internal sources	Stakeholder engagement exercise	HKFRS SDS and other guidance	Industry and peer group analyses	External rating, reports and statistics
Climate change adaptation	✓		✓		
Supply chain resilience		✓			
Land use & ecological impacts			✓		
Health & safety			✓		✓
Green building			✓	✓	✓
Energy management			✓	✓	
Water management			✓		
Management of tenant sustainability impacts			✓		
Product safety & quality					✓
Corporate governance					✓
Stakeholder governance					✓

Example 4.3



Using existing risk management processes and expanding identification of sustainability-related risks and opportunities

Oriental Home Products considers it is appropriate to use its existing risk management process as a starting point for its identification of sustainability-related risks and opportunities.

During this risk identification process, the entity recognises that it has not included the SASB Standards as one of its sources when identifying sustainability-related risks and opportunities. As such, Oriental Home Products refers to and considers the applicability of the 'Appliance Manufacturing' SASB Standard as required by HKFRS S1 and identifies that the topic 'Product Life Cycle Environmental Impacts' was not previously captured.

Oriental Home Products also recognises that the existing risk management only focuses on short-term (1-2 years). Oriental Home Products then extends its time horizon beyond the 1-2 years and identifies a risk that had been overlooked – long-term physical risk related to water scarcity at manufacturing facilities in water-stressed regions. While reviewing climate projection data for regions where its manufacturing facilities are located, Oriental Home Products discovers that three of its major production sites are projected to face severe water stress within 5-10 years due to climate change impacts. In their previous risk identification exercise, water scarcity was not flagged as a concern because short-term projections showed low impact and likelihood within the 2-year planning horizon.

In addition, Oriental Home Products acknowledges that the judgements made in its risk assessment process are based on the management perspective rather than investors' perspective. Oriental Home Products revisits the judgements made considering investors' perspective by consulting with existing investors, reviewing external assessments from ESG rating agencies and comparing these external viewpoints with their internal assessment. Through this review, Oriental Home Products determines that no adjustment is needed.

This example illustrates how Oriental Home Products uses the results of its existing risk management processes to inform its development of an initial list of sustainability-related risks and opportunities. Oriental Home Products reviews the judgements previously made and updates them with reference to the SASB Standards and other information and by extending time horizons to cover effects over short, medium and long term in this example to ensure coverage of sustainability-related risks and opportunities for reporting under HKFRS SDS.

Sustainability-related risks and opportunities often have unique characteristics—such as extended time horizons (spanning short, medium and long term), greater uncertainty and complex interconnections. Rather than creating entirely new systems, entities can integrate the processes for identifying, assessing, prioritising and monitoring sustainability-related risks and opportunities into the overall risk management process by adapting their existing risk management frameworks to address these unique characteristics.

[HKFRS S1.BC94]

Primary users benefit from understanding how an entity's integrated risk management processes address sustainability-related risks and opportunities, particularly when these processes have been adapted to account for their unique characteristics. When material, an entity is required to explain any adaptations made to its processes to address these distinctive features.

For example, an entity may disclose how it has extended its traditional risk assessment timeframe (e.g. 1-3 years) to align with the time horizons defined by the entity to support identification of sustainability-related risks over the medium and long term. Similarly, an entity may explain how it broadens its assessment scope to consider indirect interactions throughout the value chain, such as sustainability issues in raw materials that the entity purchases and relies upon.

Step 4



Assess relevant sustainability-related risks and opportunities

After identifying potentially relevant sustainability-related risks and opportunities, an entity analyses and evaluates which of these could reasonably be expected to affect its prospects. This assessment helps determine which risks and opportunities require the disclosure of material information to primary users.

[HKFRS S1.74, 75]

HKFRS SDS do not prescribe specific methodologies on how to assess whether a sustainability-related risk or opportunity could reasonably be expected to affect its prospects. When assessing sustainability-related risks, entities should apply judgement to determine if the risks – even with risk mitigation measures in place or planned – could reasonably be expected to affect the entity's prospects.

Risk mitigation activities could affect the expectation of whether and how a sustainability-related risk might affect an entity and its prospects. In some cases, mitigation activities may reasonably lead an entity to conclude it is not exposed to a particular risk that would affect its prospects. In other situations, despite having mitigation measures in place, an entity may determine it remains exposed to risks that could reasonably be expected to affect its prospects. The entity may also consider the nature of the risk – such as whether the risk remains consistent period to period or if it is an evolving risk, or whether the entity has the ability to affect or control the risk through its mitigating activities.

When making these determinations, an entity should consider the relevance and materiality of the information from a primary user perspective. If judgements about how risk mitigation activities were considered when identifying relevant sustainability-related risks and opportunities represent judgements that significantly affected the information reported in the entity's sustainability-related financial disclosures, the entity should disclose this information to enable primary users to understand the judgements.

For example, a sustainability-related risk or opportunity might be highly scrutinised by primary users due to its nature. In the technology and financial services sectors, data privacy and cybersecurity risks are evolving rapidly with technological advances. Even when related risks have been mitigated, if information about these risks and their mitigation is material for primary users when making investment decisions, the entity should disclose information about the data privacy and cybersecurity risks and the mitigation activities. This step often involves an iterative process where entities may need to reassess what constitutes a relevant sustainability-related risk or opportunity, particularly when considering mitigation activities and determining what information about them is material and therefore requires disclosure. Please refer to section 4.3 for further guidance on identifying and disclosing material information.

Entities are recommended to read the [Agenda Paper 2](#) and paragraphs 10 to 23 of the [meeting summary](#) of the September 2024 meeting of the TIG for further discussion on the identification of relevant sustainability-related risks and consideration of risk mitigation activities.

Example 4.4



Entity assesses relevant sustainability-related risks and opportunities

Continuing Example 4.3, after reviewing its initial list of risks and opportunities, Oriental Home Products applies its existing risk assessment matrix. This matrix evaluates both the potential magnitude of the effect of the risk on the entity (such as the potential financial effect) and the likelihood of the effect (such as whether it is highly likely or remote that the risk might affect the entity), as illustrated in the figure below.

Risk Assessment Matrix

		Likelihood of the effect				
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain
Magnitude of the effect	5 – Catastrophic	5	10	15	20	25
	4 – Major	4	8	12	16	20
	3 – Moderate	3	6	9	12	15
	2 – Minor	2	4	6	8	10
	1 – Negligible	1	2	3	4	5

Low risk Medium risk High risk Very high risk

Note: This graphical representation in this example serves only as an illustration of a possible approach to visualisation of the assessment of criteria an entity can use to assess sustainability-related risks and opportunities. An entity should determine what constitutes a relevant sustainability-related risk or opportunity based on its facts and circumstances.

Oriental Home Products has determined that risks falling within the high and very high risk categories (risk scores of 10 and above) would generally be considered relevant sustainability-related risks requiring disclosure of material information. Oriental Home Products also evaluates risks from a primary user perspective, recognising that certain risks may be relevant to investors even if they fall below these thresholds in the risk assessment matrix.

Results of Risk Assessment

Product Life Cycle Environmental Impacts		Rationale
Magnitude of the effect	3	<ul style="list-style-type: none"> Calls for producer responsibility regulations are emerging in countries where Oriental Home Products operates and exports its products to. Regulations on mandatory producer take-back programmes for end-of-life appliances will likely be introduced in the near future. Introduction of these regulations would create additional 5% operating costs for the entity to collect and recycle end-of-life appliances through arrangements with vendors.
Likelihood of the effect	4	
Risk score	12	High risk

Supply Chain Disruptions Due to Rare Earth Metal Shortages		Rationale
Magnitude of the effect	1	<ul style="list-style-type: none"> Unlike its competitors, Oriental Home Products has transitioned to alternative motor and component designs that use minimal amounts of these materials 5 years earlier. These materials represent less than 0.1% of their total material costs, and substitutes are readily available if shortages occur.
Likelihood of the effect	3	
Risk score	3	Low risk

In the home appliances sector, supply chain disruption due to restrictions on rare earths is recognised as a significant industry-wide risk. Even when Oriental Home Products has successfully mitigated this risk - such as by transitioning to alternative materials and thereby reducing its own exposure - it remains important to disclose this information under HKFRS S1. This is because investors, aware of the **broad industry risk**, could reasonably expect it to affect the entity's prospects, including its cash flows, access to finance, or cost of capital.

Based on the above risk assessment, Oriental Home Products determines that 'Product Life Cycle Environmental Impacts', which falls within the high risk category, is a relevant sustainability-related risk. When revisiting the assessment based on the perspective of primary users, Oriental Home Products also identifies 'Supply Chain Disruptions Due to Rare Earth Metal Shortages' as a relevant sustainability-related risk despite its low risk categorisation in the matrix.

Transparent disclosure allows investors to understand both the nature and presence of the risk and the effectiveness of the entity's mitigation strategy, supporting informed decision-making and reducing uncertainty. According to HKFRS S1, companies should explain not only the risk itself but also how it has been managed, so that primary users can accurately assess the entity's resilience and future outlook. This approach aligns with investor expectations for credible, decision-useful disclosures and helps maintain trust and market confidence.

[HKFRS S1.28, 29]



Getting started in identifying relevant sustainability-related risks and opportunities

Entities with limited resources can begin by focusing on the relevant sustainability-related risks and opportunity directly linked to their core business activities. This might involve identifying a few priority areas using industry guidance such as the SASB Standards. As expertise develops and reporting processes mature over time, entities can progressively expand their assessment scope to include additional sources of guidance and more comprehensive value chain analyses.

Step 5



Document the processes undertaken to identify relevant sustainability-related risks and opportunities

When preparing disclosures required by HKFRS SDS, entities are recommended to document the following key aspects:

- **Methodologies:** The step-by-step process of how an entity assesses whether a sustainability-related risk or opportunity could reasonably be expected to affect its prospects, including criteria used in this assessment, and whether and how existing or planned mitigation activities have been factored into this process.
- **Sources of guidance:** The specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied when identifying relevant sustainability-related risks and opportunities.
- **Key judgements and measurement uncertainty:** The critical determinations made during the assessment process, including acknowledgement of data limitations and how uncertainties are factored into judgements. For example, when assessing risks related to supply chain, judgements might include how to evaluate potential business impacts when insight into the operations of secondary suppliers remains limited.

[HKFRS S1.59]

[HKFRS S1.74-81]

Step 6








Review and update

The process of identifying and assessing relevant sustainability-related risks and opportunities is not an activity that only takes place once. To ease application, an entity is not required to reperform the identification and assessment process at each reporting date. However, if there is a significant event or significant change in circumstances, an entity is required to reassess the scope of the affected sustainability-related risks and opportunities throughout its value chain.

[HKFRS S1.B11, B12]

Table 4.1

Examples of reasons to reassess the scope of sustainability-related risks and opportunities in the value chain

Where significant change originates	Example of change or type of event
Upstream value chain 	<ul style="list-style-type: none"> • Disruptions in raw material supply • Labour strikes
Business model and core operations 	<ul style="list-style-type: none"> • Relocation or expansion to new regions • Changes in production processes or material inputs • Changes in distribution or sales channels
Corporate structure 	<ul style="list-style-type: none"> • Merger or acquisition • Divestiture • Change in parent company or controlling interest
Downstream value chain 	<ul style="list-style-type: none"> • Changing customer preferences for sustainable products • New requirements from major customers
Regulatory environment 	<ul style="list-style-type: none"> • Introduction of mandatory ESG disclosure requirements • Carbon pricing implementation • Extended producer responsibility legislation



How can entities adapt existing materiality assessments to align with HKFRS SDS requirements?

When applying HKFRS SDS, materiality refers to the assessment of material information and is only applied to determine what information to provide about a sustainability-related risk or opportunity.

Different sustainability reporting frameworks use materiality concepts in specific ways. The use of the word “materiality” in HKFRS SDS differs from its use in some other sustainability standards. For instance:

- **HKEX ESG Code:** Refers to “materiality” in terms of the threshold at which ESG issues determined by the board of directors of a listed issuer are sufficiently important to investors and other stakeholders that they should be reported¹².
- **GRI Standards:** Focus on “material topics” that represent an organisation’s significant impacts on the economy, environment and people, including human rights impacts.
- **European Sustainability Reporting Standards (“ESRS”):** Apply “double materiality”, considering both impact materiality (i.e. how an entity impacts people or the environment) and financial materiality (i.e. how people and the environment affect an entity financially) in identifying “material matters”.

Entities are recommended to read “Sustainability-related risks and opportunities and the disclosure of material information” to understand the interoperability considerations, including the differences and similarities when applying the concept of “materiality” in ISSB Standards and other reporting standards.

Entities that have already conducted materiality assessments under these reporting standards can adapt their processes to align with HKFRS SDS by:

- (i) **Building on existing financial materiality components:** For entities using ESRS, the financial materiality assessment conducted as part of double materiality can serve as a starting point. Information deemed financially material under ESRS would generally be considered material under HKFRS SDS.
- (ii) **Reviewing impact materiality findings through the lens of an entity’s prospects:** For entities using GRI Standards or the impact materiality component of ESRS, review the significant impacts identified to determine which impacts could reasonably be expected to affect the entity’s prospects. Many significant impacts identified may affect an entity’s prospects when considering:
 - financial implications of managing the impact;
 - changing stakeholder expectations and market trends;
 - regulatory developments related to the impact; and
 - reputation and relationship implications.
- (iii) **Extending the time horizon:** HKFRS SDS explicitly consider short-, medium- and long-term time horizons. Entities should ensure their assessment considers how impacts may affect an entity’s cash flows, its access to finance or cost of capital over these timeframes.
- (iv) **Ensuring value chain coverage:** The existing assessment should adequately consider relevant sustainability-related risks and opportunities throughout the value chain as required by HKFRS SDS.
- (v) **Documenting the processes:** Entities are recommended to document the processes used to identify relevant sustainability-related risks and opportunities, including how existing materiality assessments were leveraged and adapted to meet HKFRS SDS requirements.

¹² Paragraph 11(1) of Part A of HKEX ESG Code.

FAQ 4.2



Should an entity involve broader groups of stakeholders beyond primary users when identifying relevant sustainability-related risks and opportunities?

Engagement with wider stakeholders can support the identification of relevant sustainability-related risks and opportunities under HKFRS SDS.

[HKFRS S1.B2]

Relevant sustainability-related risks and opportunities arise from an entity's interactions with stakeholders, society, the economy and the natural environment throughout its value chain. These interactions—both direct and indirect—are fundamental to understanding how an entity's operations and dependencies may give rise to risks or opportunities that affect its prospects.

The HKFRS SDS's approach is rooted in integrated thinking, which requires entities to consider the inextricable link between their business and the broader ecosystem of stakeholders beyond capital market participants, including employees, suppliers, customers, local communities, regulators and the environment. This holistic view helps ensure that entities do not overlook significant risks or opportunities that may arise from stakeholder concerns, expectations, or actions.

While the primary users of HKFRS SDS disclosures are existing and potential investors, lenders and other creditors, stakeholder engagement can provide critical external evidence and context for assessing what is material. Incorporating this external perspective helps an entity understand what an external party would expect when considering relevant sustainability-related risks and opportunities. For example, stakeholder feedback may reveal emerging regulatory trends, reputational risks, or operational dependencies that could reasonably be expected to affect cash flows, access to finance, or cost of capitals.

HKFRS SDS do not prescribe a specific approach for identifying relevant sustainability-related risks and opportunities. However, they require entities to consider all reasonable and supportable information available at the reporting date, which may be informed by stakeholder engagement, industry guidance and other external sources. This flexible approach recognises the practical value of engaging with a broad range of stakeholders to surface relevant issues.

For instance, supplier engagement may uncover risks related to resource scarcity or labour practices. Customer feedback can reveal opportunities for product innovation or market expansion in response to sustainability trends.

Engagement with wider stakeholders beyond primary users is not only compatible with, but supportive of, the identification of relevant sustainability-related risks and opportunities. Such engagement helps entities capture a fuller picture of their dependencies and impacts, informing materiality judgements.

FAQ 4.3



Are entities required to use quantitative methods such as financial modelling to assess relevant sustainability-related risks and opportunities?

Entities can, but are not required to use quantitative methods such as financial modelling when assessing relevant sustainability-related risks and opportunities. HKFRS SDS require entities to determine whether a risk or opportunity could reasonably be expected to affect the entity's prospects, but do not prescribe specific assessment methodologies. Entities should apply judgement in determining the methods to be used in assessing risks and opportunities, by considering their facts and circumstances. For example, as illustrated in Example 4.4, an entity may leverage its existing risk matrix to assess which risks and opportunities could reasonably be expected to affect its prospects.



How should entities with diverse operations identify relevant sustainability-related risks and opportunities?

Entities' approach to identify relevant sustainability-related risks and opportunities could vary depending on the complexity of their operations.

An entity with a single primary business activity may use a simplified approach such as the following:

- map the value chain for the core business activity;
- identify dependencies and impacts across the value chain;
- apply HKFRS SDS and consider relevant guidance such as SASB Standards (for various sustainability topics) and HKFRS S2 Industry-based Guidance (for climate-related disclosures); and
- evaluate which risks and opportunities could reasonably be expected to affect its prospects.

A conglomerate with multiple business lines may adapt its approach according to its circumstances:

- map significant business activities across different industries and identify the relevant value chain for each business line;
- identify dependencies and impacts for each business line;
- consider the relevant industries that correspond to the activities of the conglomerate in the SASB Standards and HKFRS S2 Industry-based Guidance;
- identify relevant sustainability-related risks and opportunities both at the segment level (what is relevant for each business) and at the consolidated group level (what affects investors in the conglomerate as a whole);
- integrate findings across the business lines, ensuring that overlapping risks (e.g. climate risk present in multiple divisions) are presented to reflect their cumulative impact; and
- clearly disclose key judgements made in identifying relevant sustainability-related risks and opportunities, e.g. guidance and sources used and how relevant sustainability-related risks and opportunities were determined across diverse activities.

For example, a conglomerate with operations in Consumer Goods, Health Care and Food & Beverage, as well as limited operations in Transportation may:

- apply HKFRS SDS and consider relevant guidance from SASB Standards for each sector;
- identify and assess water use risk in Food & Beverage, supply chain labour risk in Consumer Goods and clinical trial ethics in Health Care; and
- determine which risks are relevant to individual segments and which affect the group's overall prospects.

For risks and opportunities that are relevant to individual segments but have minimal impact on the group as a whole, entities can consider whether information about these would be useful for primary users. For instance, water use risk may critically affect the Food & Beverage operations but have minimal impact on the group's overall prospects. Nevertheless, information about this water use risk can be important for primary users evaluating the prospects of the Food & Beverage operations as well as the group as a whole. This consideration relates to the aggregation and disaggregation of information discussed in section 4.3.2, which provides guidance on how to apply materiality judgements when identifying and disclosing information about the relevant sustainability-related risks and opportunities.

Entities with diverse operations may also recognise varying levels of maturity, expertise and resources available across different segments. Entities can apply the proportionality mechanisms as appropriate and adopt segment-specific approach when identifying relevant sustainability-related risks and opportunities at the segment level.

4.3

Identifying and disclosing material information

[HKFRS S1.17, 18]

Materiality is used to assess whether information required by HKFRS SDS would need to be disclosed by a particular entity. Information is considered material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users make relating to providing resources to the entity.

[HKFRS S1.BC69]

HKFRS SDS and HKFRS Accounting Standards use aligned definitions of material information. However, sustainability-related financial disclosures and financial statements serve their specific objectives and provide different types of information about a reporting entity. Sustainability-related financial disclosures provide information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, while financial statements provide information about the entity's assets, liabilities, equity, income and expenses. Because of these differences, materiality judgements for sustainability-related financial disclosures will inevitably differ from those for financial statements.

Entities are recommended to refer to the process provided in "[Sustainability-related risks and opportunities and the disclosure of material information](#)" to identify and disclose material information about relevant sustainability-related risks and opportunities. This section highlights the following key factors to consider:

- determine potentially material information to report; and
- apply materiality judgements based on entity-specific circumstances.

4.3.1

Determine potentially material information to report

[HKFRS S1.15(b)]

HKFRS S1 requires an entity to consider and apply applicable HKFRS Sustainability Disclosure Standards, and determine whether there is any additional information necessary for primary users to understand how sustainability-related risks and opportunities affect its prospects.

[HKFRS S1.57]

When no specific standard applies to an identified sustainability-related risk or opportunity, entities should exercise judgement to identify information that is:

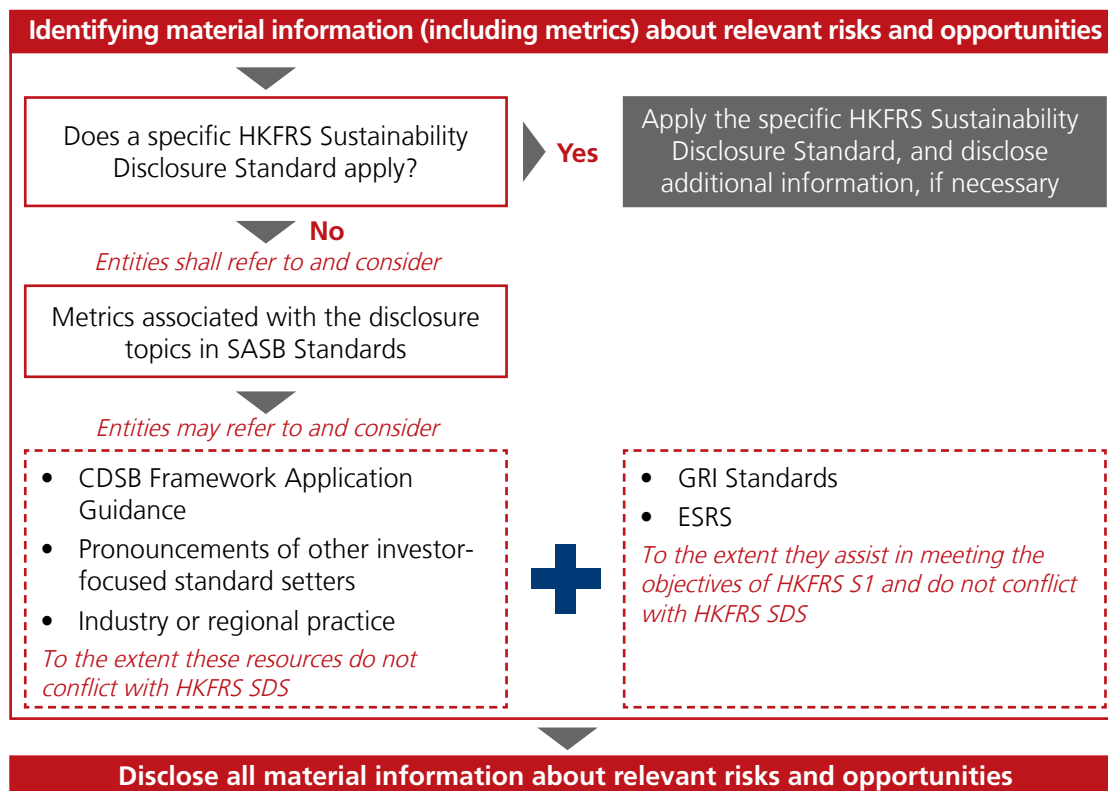
- relevant to primary users' decision-making; and
- faithfully represents the sustainability-related risk or opportunity.

In making this judgement, entities consider additional sources of guidance indicated in HKFRS S1. The process is depicted in the figure below.

Figure 4.3

[HKFRS S1.58, C2]

Sources of guidance for identifying material information



Example 4.5



Referring to and considering the applicability of SASB Standards, CDSB Framework Application Guidance and GRI Standards to identify information to disclose about a sustainability-related risk

Unity Group is identifying material information about its relevant sustainability-related risks and opportunities.

Upon assessment of its sustainability-related risks, most of Utility Group's hotels are located in ecologically sensitive regions, where ecosystem degradation could directly impact both the aesthetic appeal of these destinations and the long-term viability of tourism in these areas. Therefore, Utility Group determines that the hospitality operations are exposed to biodiversity impacts which could reasonably be expected to affect the entity's prospects. Since biodiversity is considered a relevant sustainability-related risk, Unity Group considers what material information it would need to be disclosed to enable primary users to understand the biodiversity impacts and related adaptation and mitigation actions.

In the absence of a HKFRS Sustainability Disclosure Standard that specifically applies to biodiversity, Utility Group first references the SASB Standards for Hotels & Lodging and identifies disclosure topics such as 'Ecological Impacts' which requires disclosures of the number of lodging facilities located in or near areas of protected conservation status or endangered species habitat.

Utility Group also refers to the CDSB Framework Application Guidance for Biodiversity-related Disclosures and considers the guidance on reporting sources of environmental impact and identifies relevant biodiversity impact metrics such as number of species on the International Union for Conservation of Nature Red List of Threatened Species and national conservation list species within priority geographic areas.

Furthermore, Unity Group decides to refer to and consider the applicability of GRI Standards to develop disclosures about biodiversity.

Unity Group refers to [GRI 101: Biodiversity 2024](#) and determines that the following disclosures would provide useful information to primary users and do not conflict with HKFRS SDS:

- “Disclosure 101-2 Management of biodiversity impacts” to provide information on the actions taken to manage and minimise its impacts on biodiversity;
- “Disclosure 101-5 Locations with biodiversity impacts” to provide information on the locations with the most significant impacts on biodiversity, including whether these locations are in or near ecologically sensitive areas; and
- “Disclosure 101-7 Changes to the state of biodiversity” to provide information on ecosystems affected or potentially affected for each location reported under Disclosure 101-5.

The disclosure on biodiversity would focus on the hospitality segment. Unity Group also provides an explanation of why the other business segments are not exposed to biodiversity-related risks as this information could reasonably be expected to influence primary users’ decisions.

4.3.2

Apply materiality judgements based on entity-specific circumstances

[HKFRS S1.B19]

HKFRS SDS do not specify any thresholds for material information or predetermine what information would be material in a particular situation. Entities make materiality judgements so that their reporting focuses on information that is relevant to their facts and circumstances, rather than providing a prescribed list of information. Materiality judgements are specific to an entity.

[HKFRS S1.B28]

Entities are required to reassess its materiality judgements at each reporting date to take account of changed circumstances and assumptions.

The table below highlights some of the key considerations when making materiality judgements.

Table 4.2

Considerations when making materiality judgements

Considerations	How it applies	Examples
Qualitative and quantitative factors	<ul style="list-style-type: none"> • Consider both quantitative and qualitative factors in light of primary users’ needs: <ul style="list-style-type: none"> - consider quantitative factors that are measurable (e.g. percentage of revenue dependent on flood-prone regions, energy consumption per unit of production, GHG emissions intensity, etc.); and - consider qualitative factors for aspects that are difficult to quantify (e.g. reputational impacts) and evaluate how these factors will affect the entity’s strategy and business model. • Apply quantitative and qualitative factors in parallel to avoid excluding information based solely on one type of factor. 	<p>While it is difficult to quantify the reputational impacts, an apparel retail entity assesses how labour practices in its supply chain may lead to reputational changes, which can influence customer loyalty and employee retention.</p> <p>The entity considers that information about its supply chain labour practices is material as it could influence primary users’ decisions and affect revenue.</p>

Considerations	How it applies	Examples
Aggregating and disaggregating information	<ul style="list-style-type: none"> Consider primary users' needs when determining the level of aggregation and disaggregation, such as disaggregating information by geographical location or business segment when impacts on a relevant sustainability-related risk vary significantly across different operations or activities. Avoid obscuring information through over-aggregation. 	A financial institution disaggregates climate risk exposure by loan portfolio segments (residential mortgages, commercial real estate and project finance) to provide meaningful insights.
Possible future events with uncertain outcomes	<ul style="list-style-type: none"> Assess the likelihood and severity of potential impacts. Consider primary users' expectations around industry-specific risks and opportunities to assess how the information may reasonably be expected to influence primary users' decisions despite the uncertain outcomes. Shall consider whether information about low-probability and high-impact outcomes might be material, either individually or in combination with information about other low-probability and high-impact outcomes. [HKFRS 51.B23] 	<p>A property developer determines that information about potential future flooding risks to its coastal developments is material despite uncertainty in climate model timelines. Though severe flooding may be decades away, investors enquire about climate adaptation plans and peer companies disclose physical climate risk assessments. The entity concludes that this information influences investment decisions despite uncertainty in the timing and severity of impacts.</p> <p>The entity also identifies sustainability-related risks concerning potential land use and ecological impacts across its development sites. Despite conducting all the necessary land surveys, there may be uncertain outcomes during the construction stage such as discovery of historical relics that could cause severe project delays and affect the entity's prospects. Therefore, the entity determines this information is material because these risks, though of low probability, could have very high impacts if they occurred.</p>

Considerations	How it applies	Examples
Changed circumstances and assumptions	<ul style="list-style-type: none"> Establish systematic review of materiality at each reporting period. Identify specific trigger events requiring immediate reassessment. Monitor regulatory and market developments affecting investor expectations. 	<p>An electronics manufacturer initially considered water usage in its production facilities immaterial as it contributes to a small portion of operating costs.</p> <p>However, after observing increased investor focus on water scarcity and anticipating stricter water regulations in its key manufacturing locations, the entity reassessed its materiality judgements and concluded that information about its water usage has become material.</p>
Commercially sensitive information	<ul style="list-style-type: none"> Material information about opportunities can only be omitted subject to meeting specific requirements in HKFRS S1. Please refer to section 1.5 for details. Disclosure of the exemption used is required. 	Please refer to Example 1.4 on how an entity can apply the commercially sensitive information exemption.

Entities are recommended to document their materiality assessment approach to demonstrate the rigour and consistency of their materiality judgements. The documentation can capture the sources of guidance applied, the types of quantitative and qualitative factors used, key assumptions and other judgements made when identifying material information.

FAQ 4.5



How to apply both quantitative and qualitative considerations to identify material sustainability-related information over the short, medium and long term?

Entities should consider both quantitative and qualitative factors when determining which sustainability-related information would influence primary users' decisions. These approaches are complementary, with each providing unique insights that help identify material information.

Example of a Process for Identifying Material Information

- (i) Select the starting point:
 - **For information that can be measured or expressed numerically:** Start with a quantitative assessment.
 - **For information that is more conceptual or descriptive in nature:** Start with a qualitative assessment.
- (ii) Apply quantitative considerations, for example:
 - impact on cash flows;
 - amount of resource consumption;
 - return on investment; and
 - impact on market share.

- (iii) Apply qualitative considerations, for example:
 - evaluate investor and stakeholder interest level;
 - assess competitor and industry disclosure practices; and
 - consider regulatory attention and compliance requirements.
- (iv) Integrate both perspectives:
 - review the assessment by considering both perspectives to avoid excluding information based solely on one type of factor; and
 - lower quantitative factors when qualitative factors are significant.
- (v) Document reasoning:
 - document the materiality judgments made.

The interplay between these approaches is particularly important when making judgements about sustainability-related risks and opportunities that may have different impacts across time horizons or where stakeholder expectations are evolving rapidly. For example, an electronics exporter identifies potential tariffs on its products due to emerging trade tensions arising from carbon price regulations. While the quantitative impact cannot yet be precisely calculated, the entity determines this information is material based on high investor interest and the potential massive impact if implemented. This demonstrates how qualitative factors can make information material even when quantitative effects remain uncertain.

FAQ 4.6



How may entities include information required by other standards or frameworks in their sustainability reports prepared under HKFRS SDS?

[HKFRS S1.D29]

[HKFRS S1.B27]

HKFRS SDS allow the inclusion of information that is required by other standards or frameworks, provided it does not obscure material information needed by primary users. When including such information, entities need to clearly distinguish material information required by HKFRS SDS from the information required by other standards. This can be accomplished by:

- separately disclosing the information in different, clearly labelled sections;
- using appropriate headings or subheadings to indicate the nature and relevance of different information sets;
- avoiding the practice of scattering related material information required by HKFRS SDS throughout the report, which could make it difficult for primary users to identify and understand material information;
- ensuring that immaterial information does not obscure or dilute the presentation of material information; and
- providing context that explains why certain information, while not material under HKFRS SDS, has been included to satisfy other reporting requirements.

This approach allows entities to meet multiple reporting obligations while maintaining the focus and clarity needed by primary users to make informed decisions based on sustainability-related financial information.

FAQ 4.7



How to provide meaningful and transparent disclosures that will not mislead primary users given the current lack of accurate and complete data?

Meaningful disclosure requires transparency about data limitations. Entities can consider:

- clearly identify where there are data gaps or limitations in measurement methodologies;
- disclose the approaches and assumptions used, as well as limitations when preparing estimates;
- explain how these limitations affect the completeness or comparability of disclosures; and
- indicate plans to improve data quality over time, including timelines where practical.

[HKFRS S1.D15]
[HKFRS S1.40]

HKFRS S1 acknowledges that information can be accurate without being perfectly precise in all respects. For instance, when an entity cannot provide reliable quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity, it should provide qualitative information and explain the reasons for data limitations.

HKFRS SDS also recognise the need for pragmatic implementation, permitting entities to use reasonable and supportable information available without undue cost or effort, and including transitional provisions that provide time for enhancing data collection systems.

Primary users value honest disclosure of limitations over misleading precision. Entities that are forthcoming about current challenges while demonstrating a commitment to improvement build credibility and trust with investors.

FAQ 4.8



How should entities balance the varied information demands from different stakeholders when determining what material information to disclose?

[HKFRS S1.B18,
IG4-6]
[HKFRS S1.B15]

When identifying relevant sustainability-related risks and opportunities, entities should focus on the information needs common to primary users rather than catering to specialised information requests from individual investors or rating agencies. For instance, an entity does not exclusively consider the information needs of impact investors with specific sustainability goals, but rather addresses broader information needs about factors that could influence primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and their assessment of management's stewardship of the entity's economic resources. Additional sustainability information beyond HKFRS SDS requirements may be provided as supplementary disclosure, provided it does not obscure material information.

Appendices

Appendix 1

Additional supporting resources and educational materials

Name	Description
<u>Deloitte – Roadmap on Sustainability Disclosure in Hong Kong and HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information & HKFRS S2 Climate-related Disclosures issued in December 2024</u>	Outlines the content of the roadmap and HKFRS SDS. It also discusses which entities would be required to apply HKFRS SDS and compares the requirements with those of HKEX Listing Rules, PRC sustainability reporting guidelines for listed companies and PRC Sustainability Disclosure Standards for Business Enterprise – Basic Standards.
<u>European Sustainability Reporting Standards</u>	Outlines the principles and requirements for sustainability disclosures, including double materiality, value chain information and the preparation and presentation of sustainability statements.
<u>EFRAF IG 1: Materiality Assessment Implementation Guidance</u>	Supports the implementation activities of preparers and others using or analysing ESRS reports with regard to the double materiality assessment.
<u>EFRAF IG 2: Value Chain Implementation Guidance</u>	Supports the implementation activities of preparers and others using or analysing ESRS reports, specifically on value chain information.
<u>EY International GAAP 2025 – Generally Accepted Practice for IFRS accounting and IFRS sustainability disclosures</u>	Provides guidance on reporting under IFRS accounting and sustainability disclosure standards.
<u>GRI Standards</u>	Enable organisations to understand and report on their impacts on the economy, environment and people in a comparable and credible way thereby increasing transparency on their contribution to sustainable development.
<u>KPMG – First Impressions – General and climate-related requirements</u>	Provides detailed insight on the key impacts of the ISSB standards, using illustrative examples, and includes how companies might apply them.
<u>KPMG – Materiality for sustainability reporting</u>	Provides how-to guide with practical insights and examples on identifying material information and providing decision-useful information to investors.
<u>PwC – Sustainability reporting guide</u>	Serves as a compendium of the disclosure requirements under the primary sustainability reporting frameworks. It also provides insights and perspectives, interpretative and application guidance, illustrative examples and discussion on emerging issues.
<u>Task Force on Climate-Related Financial Disclosures</u>	Provides materials developed by the TCFD to support adoption of the TCFD recommendations. The website is no longer updated or monitored, but remains available as a resource of materials.

Appendix 2

Defined terms and abbreviations

The following key terms are used throughout this guidance.

Term	Definition
business model	An entity's system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term.
climate resilience	The capacity of an entity to adjust to climate-related changes, developments or uncertainties. Climate resilience involves the capacity to manage climate-related risks and benefit from climate-related opportunities , including the ability to respond and adapt to climate-related transition risks and climate-related physical risks . An entity's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties.
climate-related physical risks	<p>Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity.</p> <p>These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.</p>
climate-related risks and opportunities	<p>Climate-related risks refers to the potential negative effects of climate change on an entity. These risks are categorised as climate-related physical risks and climate-related transition risks.</p> <p>Climate-related opportunities refers to the potential positive effects arising from climate change for an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity.</p>
climate-related transition plan	An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.
climate-related transition risks	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.

Term	Definition
disclosure topic	A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an HKFRS Sustainability Disclosure Standard or a SASB Standard.
general purpose financial reports	<p>Reports that provide financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:</p> <ul style="list-style-type: none"> (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources. <p>General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.</p>
greenhouse gases (GHG)	The seven greenhouse gases listed in the Kyoto Protocol—carbon dioxide (CO ₂); methane (CH ₄); nitrous oxide (N ₂ O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF ₃); perfluorocarbons (PFCs) and sulphur hexafluoride (SF ₆).
HKFRS Sustainability Disclosure Standards	Standards of that name issued by the Hong Kong Institute of Certified Public Accountants.
indirect greenhouse gas emissions	Emissions that are a consequence of the activities of an entity, but occur at sources owned or controlled by another entity.
material information	In the context of sustainability-related financial disclosures , information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity .
primary users of general purpose financial reports (primary users)	Existing and potential investors, lenders and other creditors.
reporting entity	An entity that is required, or chooses, to prepare general purpose financial statements.
scenario analysis	A process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty.
Scope 1 greenhouse gas emissions	Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.

Term	Definition
Scope 2 greenhouse gas emissions	<p>Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity.</p> <p>Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.</p>
Scope 3 greenhouse gas emissions	<p>Indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).</p>
Scope 3 categories	<p>Scope 3 greenhouse gas emissions are categorised into these 15 categories—as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011):</p> <ol style="list-style-type: none"> (1) purchased goods and services; (2) capital goods; (3) fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions; (4) upstream transportation and distribution; (5) waste generated in operations; (6) business travel; (7) employee commuting; (8) upstream leased assets; (9) downstream transportation and distribution; (10) processing of sold products; (11) use of sold products; (12) end-of-life treatment of sold products; (13) downstream leased assets; (14) franchises; and (15) investments.
sustainability-related financial disclosures	<p>A particular form of general purpose financial reports that provide information about the reporting entity's sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.</p>
users of general purpose financial reports (users)	<p>See primary users of general purpose financial reports (primary users). These definitions describe the same population.</p>

Term	Definition
value chain	<p>The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates.</p> <p>A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.</p>

The following abbreviations are used in this guidance.

Abbreviation	Long form
CDSB	Climate Disclosure Standards Board
ESG	Environmental, social and governance
ESRS	European Sustainability Reporting Standards
GHG	Greenhouse gas
GHG Protocol Corporate Standard	Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)
GRI	Global Reporting Initiative
HKEX	The Hong Kong Exchanges and Clearing Limited
HKEX ESG Code	Environmental, Social and Governance Reporting Code as set out in Appendix C2 to the HKEX Listing Rules
HKEX IG	Implementation Guidance for Climate Disclosures under HKEX ESG reporting framework issued by HKEX
HKFRS SDS	HKFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> and HKFRS S2 <i>Climate-related Disclosures</i>
HKFRS S2 Industry-based Guidance	Industry-based Guidance on Implementing HKFRS S2
HKICPA	Hong Kong Institute of Certified Public Accountants
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
ISSB Standards	IFRS Sustainability Disclosure Standards
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosures
TIG	Transition Implementation Group on IFRS S1 and IFRS S2



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

37th Floor, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong

Tel (852) 2287 7228

Fax (852) 2865 6603

Web www.hkicpa.org.hk

Email hkicpa@hkicpa.org.hk