

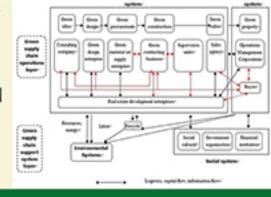
# Enhancing Supply chain resilience of real estate through ESG reporting intergration in Hong Kong

### What is Supply Chain Resilience

Supply chain resilience is the ability to anticipate, respond to, and recover from disruptions while improving operations afterward. Integrating resilience with ESG (environmental, social, governance) priorities enhances sustainable performance by aligning risk management with ethical and environmental goals, especially during global crises.

# Concept: Green Supply Chain of Real Estate

Our strategic focus on the real estate sector is informed by Alaya Consulting Limited's extensive experience and the sector's substantial environmental impact, as buildings account for 60% of Hong Kong's carbon emissions.



## Hong Kong ESG Regulation on Supply Chain



- HKEX mandates companies to disclose how they manage environmental and social risks in their supply chains, including implementation and monitoring practices.
- Firms must explain how they promote environmentally preferable products when selecting suppliers.
- Clobal frameworks like GRI (e.g., GRI 305 on emissions tracking) and IFRS S2 emphasize deeper transparency on negative environmental impacts and mitigation efforts across supply chains.
- HKEK encourages full alignment, allowing some flexibility in disclosures.

### **Assumptions:**

Strict adherence to environmental-focused ESC reporting guidelines in supply chains will harm corporate profitability.



Transaction Cost Economics: ESG compliance increases supply chain costs through mandatory audits and contractual changes, reducing operational efficiency.



Trade-off Theory: ESC investments compete with profitable projects due to high upfront costs and uncertain returns, creating financial trade-offs.

### **Challenged Assumptions**

Integrating ESC benefits long-term profitability by creating sustainable supply chains that identify opportunities such as cost reductions, attracting green financing incentives, and preparing for anticipated carbon tax regulations.

### How ESG reporting regulation enhance supply chain resilience of real estate in Hong Kong?

### A. Regulation:

- a. Foundamental HKEX:
  - Global Greenhouse Gas Emission: Starting in 2025, all listed companies
    must disclose Scope 1 and Scope 2 emissions. Scope 3 emissions, which
    are indirect GHG emissions throughout a company's entire value chain,
    require large listed companies to "comply or explain" starting in 2025,
    with mandatory beginning in 2026.
  - Aspect B5 Supply Change Management: Firms must audit suppliers for labor rights, environmental compliance, and anti-corruption practices.
- Climate scenario analysis: disclose climate-related risks and opportunities
- b. Additional Framework:
- GRI: Disclosure of sustainability risks and management practices
   Proactive risk
- IFRS: Includes qualitative and quantitative evaluations of supply chain risks, disclosure of Scope 3 GHC emissions, and scenario analysis to anticipate and mitigate potential disruptions.

## Each stakeholders are showing dependent relationship with each others

 Set regulatory frameworks and policies (e.g., Hong Kong's Climate

Action Plan 2050) to drive ESC adoption in real estate.

Provide incentives and support for green building and

decarbonization initiatives.

Facilitate collaboration among

industry players to achieve

sustainability goals.

Enforce ESO disclosure requirements for listed real

climate-related risks.

estate companies, including

Provide guidance and frameworks

standards (e.g., ISSB) to ensure

investor confidence and market

consistent ESC reporting.

Promote transparency and

accountability to enhance

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Real Estate

chain management and procurement decisions.

• Collect, manage, and report ESC data transparently to meet regulatory and investor expectations.

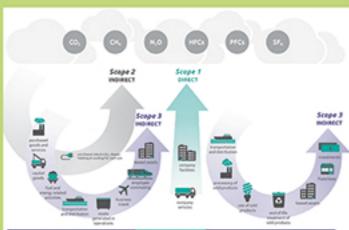
Implement sustainable building practices and energy efficiency measures to reduce environmental impact.



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Demand transparent and reliable ESC disclosures to inform investment decisions.
 Encourage real estate companies to improve supply chain sustainability and risk management.

 Drive capital allocation towards projects and firms with strong ESO performance, incentivizing continuous improvement.



### B. Improving Access to Green Finance:

HKEX's alignment with IFRS S2 and CRI
305 has made ESC disclosures a
gateway to green bonds and
preferential loans. This liquidity
supports resilient supply chains by:
Lowering financing costs- Firms with
strong ESC ratings secure cheaper
capital for sustainable projects.



Alongs Consulting
ESC
Consultan

 Advise real estate firms on ESC strategy development, risk assessment, and compliance with reporting standards.
 Support implementation of green building techniques, renewable energy solutions, and sustainable land use.

land use.

Assist in data collection, verification, and achieving green certifications to improve ESO performance.

### C. Theories:

Supply Chain Risk Management Theory: ESG disclosures improve identification and mitigation of supply chain risks.

Stakeholder Theory: ESG disclosures improve trust with stakeholders, attracting ethical suppliers and reducing supply chain conflicts.

### Recommendation

- 1. While HKEX's ESC Code requires supply chain management under a "comply-or-explain" rule, this approach allows firms to avoid full disclosure by providing explanations, which may limit transparency and comparability.
- 2. Global standards such as GRI (e.g., emissions tracking under GRI 305) and IFRS S2 (covering climate-related mitigation and Scope 3 emissions disclosure) set stricter requirements that encourage comprehensive supply chain risk assessment and emissions reporting. However, these standards are not compulsory for HKEX, serving primarily as guidelines for adoption.
- 3.Hong Kong regulators could strengthen the ESC framework by moving from "comply-or-explain" to mandatory disclosure for key supply chain ESC metrics, especially Scope 3 emissions and supplier risk management.

### Relationship with SDG target

reporting.



### SDG 12.6 Encourages companies to adopt sustainable practices and sustainability reporting

Sustainable Reporting:
It relates to SDC 12.6., which emphasizes
the importance of sustainable reporting by
encourage companies to adopt ESC

Enhancing Supply Chain Resilience:
It contributes to promoting sustainable
consumption and production by ensuring
that supply chains are robust and
sustainable.

#### Sustainable Consumption and Production:

It aligns with the broader goals of SDG 12, promoting sustainable consumption and production.

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