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Understanding ESG-related Financial Effects

A case study on the latest market practice and future developments

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Sustainability reporting is converging with the financial statements — and investors are the audience

1. **Investor lens**
   Disclosures target users of general purpose financial reports — investors, lenders, creditors — not general stakeholders

2. **From narrative to numbers**
   The frontier is quantitative financial effects connected to the financial statements

3. **Few first movers**
   Very few HK issuers publish quantitative climate financial effects today — COLI is an early example

ISSB IFRS S1 (general) + IFRS S2 (climate)

Global baseline — financial effects sit in the Strategy pillar

HKEX ESG Reporting Code — Part D (Para. 21–26)

Mirrors IFRS S2 Para. 13–22 for HK-listed issuers, phased-in

TODAY: THREE DISCLOSURE BUCKETS

Current financial effects
S2 Para. 15(a), 16 · HKEX Para. 24

Anticipated financial effects
S2 Para. 15(b) · HKEX Para. 25

Cross-industry metrics
S2 Para. 29(b)–(e)

IFRS S1/S2 (ISSB, 2026 issued standards); HKEX Main Board Listing Rules Appendix C2, Part D

The standards demand both hindsight and foresight — with proportionality built in

CURRENT FINANCIAL EFFECTS

S2 Para. 15(a), 16(a)–(b) · HKEX Para. 24

Effects on financial position, performance and cash flows **for the reporting period** — qualitative and quantitative

PLUS the often-missed limb: risks with **significant risk of a material adjustment to carrying amounts** within the next annual reporting period (Para. 16(b))

The direct bridge to the financial statements — impairment, provisions, useful lives

ANTICIPATED FINANCIAL EFFECTS

S2 Para. 15(b), 16(c)–(d) · HKEX Para. 25

Expected changes to **financial position** over short, medium and long term — considering investment and disposal plans, and planned funding

Expected changes to **financial performance and cash flows** over S/M/L term, given the climate strategy

Anchored to the entity's own financial planning horizons

PROPORTIONALITY RELIEFS — FEASIBLE TO START (HKEX Para. 25 NOTES 1–5 · S2 Para. 18–21)

Single amount or a range
point precision not required

Reasonable & supportable information
without undue cost or effort

Commensurate with skills & resources
available to the issuer

Qualitative fallback
explain why + identify affected line items

Cross-industry metrics put climate exposure on a balance-sheet footing — and demand accounting judgment

AMOUNT AND % OF ASSETS OR BUSINESS ACTIVITIES… (S2 Para. 29)

29(b) vulnerable to transition risks

29(c) vulnerable to physical risks

29(d) aligned with climate-related opportunities

29(e) capital deployment towards climate risks & opportunities

Connectivity check (Para. B65(e)): carrying amounts used should be consistent with the financial statements

TWO JUDGMENT CALLS FOR THE FINANCE TEAM

Where is the vulnerability threshold?

Which risk ratings count as “vulnerable” in the numerator — only high risk, or medium and above?

The standards don’t prescribe. Management judgment directly drives the disclosed % *(COLI reports 20% physical / 100% transition — on what threshold?)*

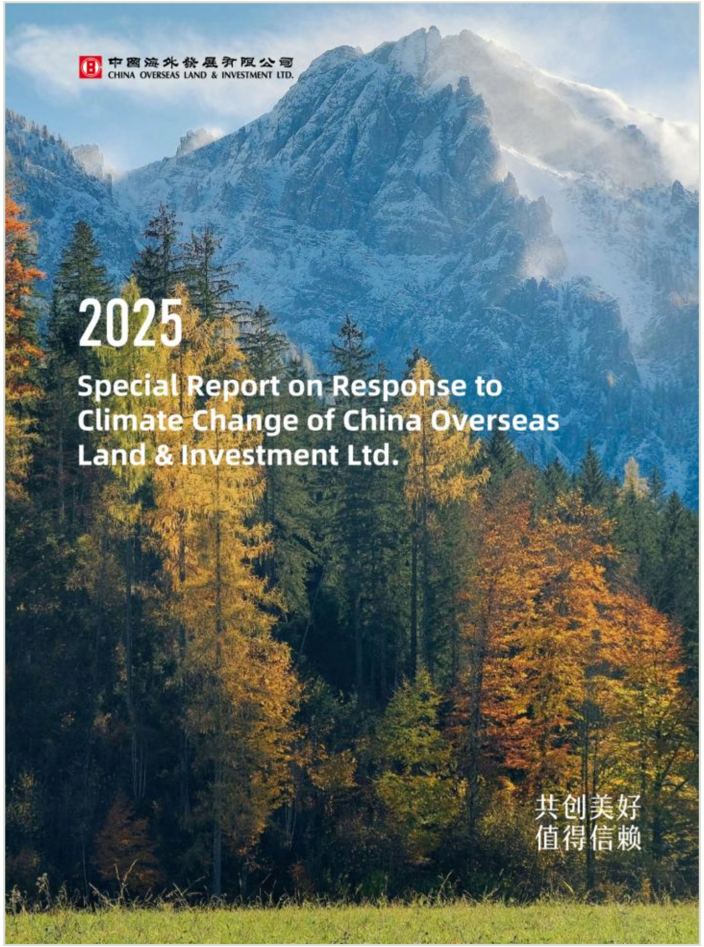
Could the % reveal commercially sensitive values?

Users may backward-calculate the values of individual assets or properties — figures not normally disclosed in the financial statements

Consider aggregation level and presentation before publishing

CASE STUDY

COLI's 2025 climate report is an early mover under IFRS S2 and the HKEX Code



WHO	China Overseas Land & Investment (0688.HK) — one of China's largest property developers
FRAMEWORKS	IFRS S2 (ISSB) · PRC MoF Climate Standard No.1 (Trial) · HKEX ESG Reporting Code
PHYSICAL SCENARIOS	IPCC SSP2-4.5 “Middle of the Road” and SSP5-8.5 “Fossil-fuelled Development”
TRANSITION SCENARIOS	NGFS Net Zero 2050 and Delayed Transition · horizons 2030 / 2040 / 2050
METHODOLOGY	MSCI Climate Value-at-Risk · NGFS Scenario Explorer · meteorological databases
RELIEFS INVOKED	“Readily available information… without unnecessary cost or effort… methods proportionate to skills, capabilities and resources”

Source: COLI, Special Report on Response to Climate Change (2025)

CASE STUDY

COLI quantifies what it can — and bands the rest

共创美好 值得信赖
CHINA OVERSEAS

Special Report on Response to Climate Change of China Overseas Land & Investment Ltd.

Financial Effect Analysis of Climate-related Risks and Opportunities

Taking into account the Company's internal conditions and referring to the MSCI ESG Research's Climate Value-at-Risk Methodology, we selected the NGFS Scenario Explorer and fair meteorological database results to conduct emission reduction cost estimations for climate-related risks and opportunities with great impact on climate resilience or potential, and produced the corresponding financial effect analysis.

Climate-related Risks		Current Financial Effect	Anticipated Financial Allocation	Anticipated Financial Effect					
				SSP2-4.5: "Middle of the Road"			SSP5-8.5: "Fossil-fuelled Development"		
				2030	2040	2050	2030	2040	2050
Acute physical risks	Heat waves	In 2025, extreme weather events increased the construction and installation costs of projects such as Zhuhai-Huanyu Times Mansion of COLI by a total of RMB 580,000. Repairs have now been completed, and normal operations have resumed.	New projects and operating projects will regularly allocate budgets for the procurement and drills of emergency equipment for extreme weather and fire protection.	20-40	10-20	10-20	20-40	10-20	10-20
	Heavy precipitation			40-60	20-40	20-40	40-60	20-40	20-40
Chronic physical risks	Temperature trend changes	During the reporting period, the Company did not identify any significant financial effect arising from such risks.	Budgets will be allocated for high-temperature allowances and the procurement of high-temperature protection equipment for new and operating projects.	10-20	10-20	10-20	10-20	10-20	10-20

Climate-related Risks		Current Financial Effect	Anticipated Financial Allocation	Anticipated Financial Effect					
				Net Zero 2050			Delayed Transition		
				2030	2040	2050	2030	2040	2050
Liability risks	Compliance with products and services regulations	During the reporting period, the Company did not identify any significant financial effect arising from such risks.	The Company strictly complies with all applicable environmental laws and regulations. Should new regulations related to carbon emissions or climate change be introduced in the future within the industry in which the Company operates, the Company will assess, pilot, and develop dedicated plans and budgets to address such risks.	1-10	1-10	10-20	<1	<1	1-10
Technology risks	Transition to low-carbon technologies and products	Buildings obtaining green certification through low-carbon technologies or energy transition enjoy a rental premium of 0.7%-2.4% in first-tier cities, and their average occupancy rate is 3.7%[2] higher than that of non-green buildings.	For benchmark and new technology pilot projects, dedicated budgets will be allocated for the introduction, application, implementation and certification of technologies related to zero-carbon building, near-zero energy buildings and ultra-low energy buildings, ensuring the effective implementation of the transition to low-carbon technologies and products.	20-40	10-20	1-10	<1	10-20	1-10

Level of financial effect from climate-related risks and opportunities	Negligible (lower than RMB 1 million)	Low (RMB 1 million to 10 million)	Medium Low (RMB 10 million to 20 million)	Medium (RMB 20 million to 40 million)	Significant (RMB 40 million to 60 million)	Medium high (higher than RMB 60 million)

[2]Source: *2026 China Investor Intentions Survey* published by CBRE Research

21 22

COLI's colour-coded table, legend-only in the original — RMB million ranges overlaid here for readability

RMB 580k

current-period cost of extreme weather — construction & installation, Zhuhai project (repaired, operations resumed)

0.7–2.4%

rental premium for green-certified buildings in tier-1 cities; occupancy +3.7 ppt vs non-green (CBRE)

20% / 100%

of assets vulnerable to physical / transition risks; 100% aligned with opportunities; HKD 2.0bn sustainability-linked loans

THE SCALE, RESTATED IN FIGURES

< 1	1–10	10–20	20–40	40–60	> 60
Negligible	Low	Medium low	Medium	Significant	Medium high

RMB million per band

Source: COLI, Special Report on Response to Climate Change (2025), pp.21–22, 29–30

CASE STUDY — TWO LESSONS FOR PREPARERS

State conclusions explicitly — and be careful and consistent with terminology

1 The silent limb — S2 Para. 16(b) / HKEX Para. 24(b)

COLI is **not explicit** on whether any climate risk carries a significant risk of a **material adjustment to carrying amounts** within the next annual reporting period

BETTER PRACTICE — WREIC SR2025, p.23:

"…we do not anticipate any material adjustments within the next annual reporting period"

to the carrying amounts of assets or liabilities from identified climate factors

> *Current Financial Effects*
>
> During the reporting year, we evaluated the current financial impacts of the climate-related risks and opportunities mentioned earlier. Overall, the current financial effects were immaterial to the Group's financial position, financial performance, or cash flows, so no material effects were identified. Based on our knowledge, we do not anticipate any material adjustments within the next annual reporting period to the carrying amounts of our assets or liabilities as a result of climate-related factors identified.

An explicit statement — even a negative one — shows the assessment was performed and fulfils the requirement

2 Non-standard terminology

"Anticipated financial allocation" is COLI's own term — it appears in neither IFRS S2 nor the HKEX Code

AS ACCOUNTANTS:

Be careful introducing terms that are not commonly understood — contrast with established language like EBITDA

Align and discuss with the CFO's finance team before publication

Provide a clear definition in the report whenever a new term is used

Sources: COLI Special Report (2025); Wharf REIC Sustainability Report 2025, p.23

Materiality thresholds must be set with investors in mind — the standards give no bright lines

Shares the accounting definition of materiality — but its application differs:

information is material if omitting, misstating or obscuring it could reasonably be expected to influence **decisions of primary users** of general purpose financial reports

Management must translate this into **quantitative thresholds** — but neither IFRS S1/S2 nor the HKEX Code prescribes any

Tension: sustainability effects can be decision-useful *below* FS materiality — long horizons, financing costs, ratings — yet thresholds still need a defensible link to investor decisions

Document the benchmark, the rationale, and the link to primary users

ANCHORS ACCOUNTANTS ALREADY USE (AUDIT RULES OF THUMB)

Profit before tax	≈ 5%
Revenue	0.5–1%
Total assets	1–2%
Shareholders' equity	1–2%

Starting points for discussion — not rules for sustainability disclosure

IFRS S1 Para. 17–18; HKICPA/ISA 320 common benchmarks

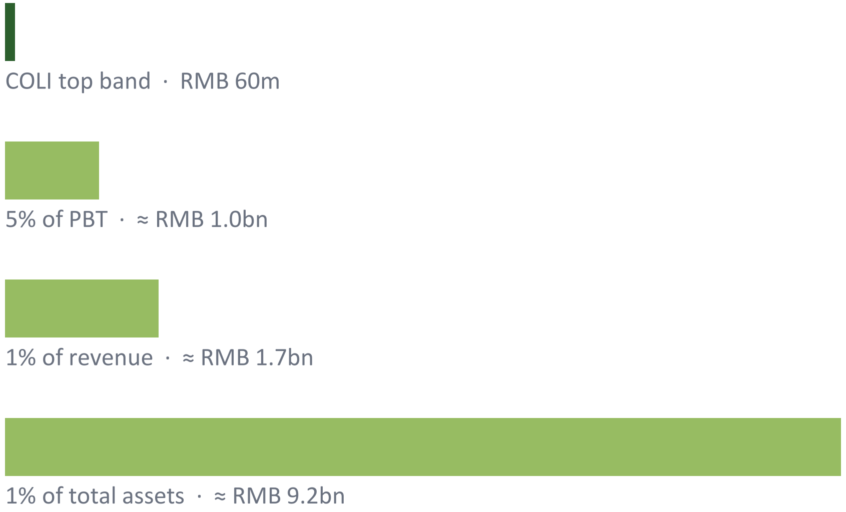
TESTING THE CASE

COLI's entire scale sits far below conventional materiality benchmarks — discussion, not verdict

0.3%

COLI’s top band (“medium high”, >RMB 60m) as a share of FY2025 profit before tax

RMB 60M VS TYPICAL FS MATERIALITY



FY2025 benchmark	Amount (RMB)	60m as %	Typical FS materiality
Profit before tax	20.6bn	**~0.3%**	5% ≈ 1.0bn
Profit attributable	12.7bn	**~0.5%**	—
Revenue	168.1bn	**~0.04%**	0.5–1% ≈ 0.8–1.7bn
Total assets	~915.7bn	**~0.007%**	1–2% ≈ 9–18bn
Shareholders' equity	388.0bn	**~0.015%**	1–2% ≈ 4–8bn

Deliberately granular — calibrated to project-level decisions? Or unexamined vs the investor lens the standards require?

No disclosed basis for the banding — how would you justify it to investors and assurance providers?

Balance-sheet angle bites hardest: climate effects land on asset carrying amounts, and ~RMB 916bn of assets dwarfs the scale

Source: COLI FY2025 annual results (announced 31 Mar 2026); COLI Special Report (2025). FS materiality: common audit rules of thumb. Illustrative discussion based solely on published information — not an assessment of any issuer's compliance with any requirement

Nature and social are next — in language your CFO already understands

NATURE — TNFD

Likely to remain voluntary for now (ISSB's latest position)

Water dependency

a drinks or food plant depends on clean local water — deplete the aquifer and costs rise or the plant relocates

Free flood defences

wetlands and mangroves protect property — lose them and flood damage, insurance and adaptation capex go up

Supply-chain inputs

deforestation rules and soil degradation raise timber, paper and food input costs

SOCIAL — TISFD

People-related impacts, dependencies, risks and opportunities

Labour shortage

construction's ageing workforce means higher wages and project delays — very real in Hong Kong

Social licence

community opposition brings planning objections, delays and cost overruns; supply-chain scandals cost revenue

The upside

wellbeing and living wages cut turnover and recruitment costs — an opportunity, not just a risk

TISFD Framework Beta v0.1 (May 2026) — social financial effects are next

framework.tisfd.org · Your climate financial-effects capability is reusable for nature and social

TNFD; TISFD Framework Beta Version 0.1 (26 May 2026)

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KEY TAKEAWAYS

1. Financial effects are where sustainability reporting meets the financial statements — home turf for finance and accounting professionals
2. The reliefs make it feasible to start — ranges, qualitative fallback, proportionality. Be explicit on Para. 16(b), and disciplined with terminology
3. Set materiality thresholds with investors in mind — and test them against your own income statement AND balance sheet
4. Climate is only the first chapter — TNFD and TISFD extend the same discipline to nature and social

Continue the conversation

Scan the codes for the article “The Courage to Quantify Climate-Related Financial Effects” and to follow the coming review of all Hang Seng Index constituents’ year one disclosures

Read the article

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