BDO SURVEY 2020
THE ESG REPORTING PERFORMANCE OF HONG KONG LISTED COMPANIES

CONTENTS

FOREWORD

Environmental, social and governance (ESG) factors are continuing to gain traction in corporate reporting regimes and the financial institution sector from the standpoints of long-term sustainability and responsible investment. Users and investors are demanding an increasingly high quality of ESG information disclosed by listed companies in order to facilitate decisions about investment, interest and value alignment, business partnerships, and joint efforts to overcome global challenges.

ESG issues have impacts across all the business functions of a company, as they are all inter-related. These issues must be integrated into a company's strategy, risk-management framework and business operations if the company is to address those challenges in a systematic and sustainable manner.

This is the fourth survey conducted by BDO on the performance of ESG reporting among Hong Kong listed companies. The survey explores whether their ESG reporting performance has improved since last year, identifies ***7 key findings***, and makes ***12 recommendations*** for listed companies to consider when preparing their ESG reports.

We have noted improvements in ESG disclosure in some areas and evidenced that the boards of listed companies are increasingly aware of the importance of ESG management. This will have enabled them to be better prepared for meeting the new disclosure requirements under the revised ESG Reporting Guide (the Revised Guide) issued by the Hong Kong Exchanges and Clearing Limited (HKEx), which came into effect on 1 July 2020.

Despite the continued effects of COVID-19 on our daily lives and on operations ranging from supply-chain disruption to employee health and safety, the ESG reporting regime has been evolving to meet users' increasingly high expectations. Now is the time for listed companies to put more effort into their ESG reporting and practices and to work harder to achieve long-term sustainability.

RICKY CHENG
Director and Head of Risk Advisory
BDO in Hong Kong

ABOUT THIS SURVEY

BACKGROUND

This is the fourth year of our survey on the ESG reporting performance of Hong Kong listed companies.

The purposes of the survey are to:

- understand the current practices of listed companies reporting ESG information;
- track and update listed companies' ESG reporting performance in terms of compliance with the disclosure requirements of the HKEx ESG Reporting Guide; and
- identify good practices and make recommendations to enable listed companies to better prepare their ESG reports.

METHODOLOGY AND DEMOGRAPHICS

Using stratified random sampling, 400 listed companies from both the Main Board and GEM were selected for the survey.

These listed companies came from:

- the Hang Seng Index;
- the Hang Seng China Enterprises Index; and
- the Hang Seng Corporate Sustainability Index.

We have reviewed and analysed the ESG reports (either embedded in the company's annual report or published as a stand-alone report) published by the surveyed listed companies on or before 31 July 2020. The distribution of the sampled companies in accordance with the Hang Seng Industry Classification System and by company size is presented in figures 1 and 2, respectively.

Figure 1: Percentage of companies surveyed, by industry

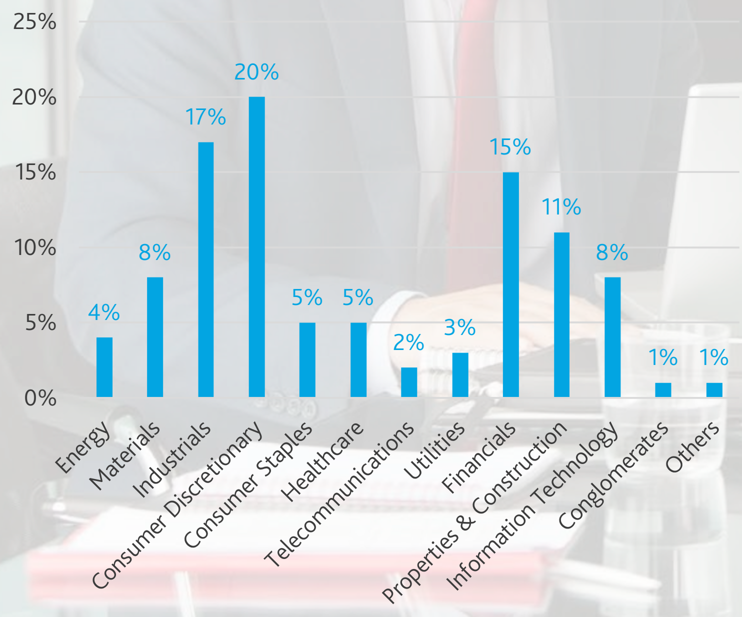
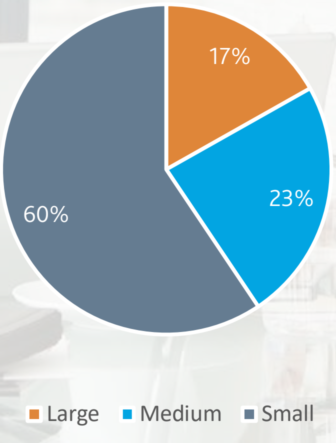


Figure 2: Percentage of companies surveyed, by size



KEY SURVEY FINDINGS AND RECOMMENDATIONS

(1) BOARDS ARE INCREASINGLY INVOLVED IN ESG GOVERNANCE

54%

of the surveyed companies disclosed information about the board's oversight of ESG issues

Our survey results showed that 54% (2019: 34%) of the companies we surveyed disclosed information about the board's oversight of ESG issues. At the same time, among all the companies surveyed, the boards had gained momentum in disclosing their involvement in monitoring ESG performance and ESG risk-management approaches in their preparations for meeting the mandatory disclosure requirements of the Revised Guide (see figures 3 and 4).

The results evidenced that the boards of listed companies were increasingly aware of the importance of ESG management. We also observed that the boards of large companies tended to put the most effort into overseeing ESG issues (see figure 5).

On the disclosure of other ESG governance information in ESG reports, the survey showed that there were slight improvements in allocating dedicated resources to managing ESG issues and formulating ESG strategy (such as disclosing a vision, ESG framework and ESG policy). However, there was a small decline in the percentage of companies that disclosed information about ESG risk management (such as processes for evaluating, prioritising and managing material ESG risks) (See figure 6).

Figure 3: Is the board involved in the ESG risk-management approach and strategy?

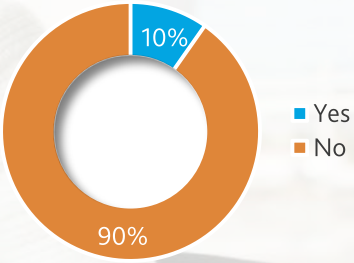


Figure 5: Companies that disclosed details about the board's oversight, by company size

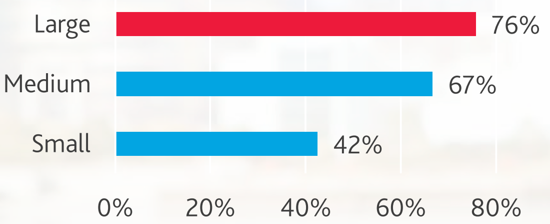


Figure 4: Does the board review the company's ESG performance against its ESG goals and targets?

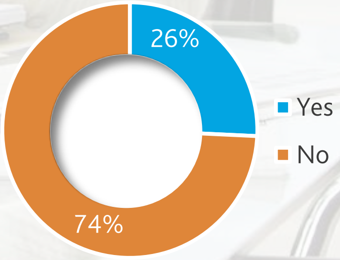


Figure 6: Information disclosed about ESG governance

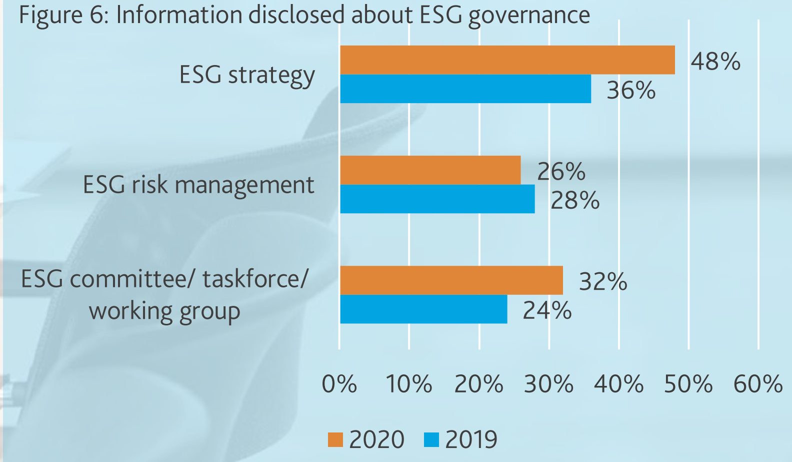


Table 1 provides examples of current practices among the companies we surveyed.

Table 1

Industry	Current practices
Consumer discretionary	• Board receives regular training to refresh their knowledge of the latest development and regulatory changes • Board of directors: annual review of sustainability initiatives and achievements, and look for opportunities for further improvement and prioritisation of actions (with focus on stakeholder engagement and climate resilience strategy) • Executive Committee: oversight of ESG issues • Audit Committee: supervises the ESG risk and internal control system • ESG Taskforce: reviews the ESG risk management and internal control system annually and reports to the Executive and Audit Committee; regularly communicates with ESG committees for status updates • ESG policy and framework to provide strategic focus and direction in order to address ESG issues in the long term
Industrial	• In the Chairman's Statement: the strategy of the company was to enhance business scale and efficiency while continuing to incorporate sustainability into corporate strategies and operations • ESG Task Force (supervised by CEO): – Comprises of mainly the Company Secretarial Department, Administration and HR Department and Operational Management Department, and other departments when necessary – Handles day-to-day sustainability management and report to the Board regularly including the information to understand the sustainability issues and industry trends • Established sustainability risk-management framework • Board reviews material sustainability issues and their impact, risks and performance at the end of each year • ESG governance – 3 lines of defense o Tier 1: Business Operating Units to supervise, implement and report the risks in a timely manner o Tier 2: Risk Management Department to monitor and evaluate performance, and regularly report to the Audit and Risk Management Committees o Tier 3: Internal Audit Department to conduct an annual internal audit – 4 major sustainability risks identified o Environmental: environmental compliance o Social: work management, staff turnover, supply of raw materials

Industry	Current practices
Materials	• ESG strategy – Integrates the concept of sustainability into daily operations – Adopts of UN SDGs • ESG working team – Chaired by Chief Operating Officer – Reviews and monitors ESG issues, and reports and makes recommendation to the Board • ESG risk management – Incorporates ESG-related risks into the Group's risk-management mechanism
Insurance	• ESG governance – Tone at the top o Chairman's Statement: embrace sustainability as company's intrinsic value and adopt UN SDGs for promoting good health and well-being for all o Group Chief Executive & President's Statement: expand product range and service areas to address issues (e.g. lifestyle-related diseases and pollution) – Group ESG Committee o Responsible for overseeing the integration and implementation of ESG governance and ESG issues o Quarterly meetings of the ESG committee and biannual presentations to the Board (ESG approach, environmental targets, submission to sustainability indices and sustainability report review) o Reviews reports from external parties (e.g. rating agencies, stakeholders) and conducts studies to understand ESG trends

RECOMMENDATIONS FOR LISTED COMPANIES

Integrate ESG into the enterprise risk management framework

ESG is not simply a disclosure compliance requirement; in fact, ESG issues are intertwined with various parts of a given business operation. They are complicated and may have a bearing on a company's strategy and objectives. Companies need to strike a balance between reducing their environmental and social impacts while sustaining their business operations in order to achieve strategic goals and respond to the needs of different stakeholders.

In the context of risk management, ESG risks should not be dealt with separately. Instead, they should be integrated into a company's enterprise risk management (ERM) framework.

Companies should strengthen their ERM framework to manage ESG risks by referring to widely recognised best practice, such as the guidance developed by the World Business Council for Sustainable Development in partnership with the Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Applying enterprise risk management to environmental social and governance-related risks".

The ERM framework should include robust mechanisms for identifying and assessing the impact of ESG risks that may influence the company's strategy and objectives. At the same time, by considering the challenges and responses, the company may identify new opportunities from predicted trends.

Build capacity on climate change

Climate change may affect a company through physical risks (acute and chronic risks) and transition risks (technology, market, reputation, policy and legal risks). Companies may also need to understand the implications of these risks on financial performance, as they may affect revenue, costs and assets in the short term or long term.

Climate change is also associated with specialist knowledge and complex technical terms, such as ascertaining climate scenarios, climate-related megatrends, greenhouse gas emissions, target-setting methodologies and life-cycle analysis. Therefore, the company's board or management may need to rely on the insights, knowledge or external expertise of sustainability professionals in order to assess the impact of climate risks during the process of identifying, assessing, prioritising and mitigating climate risks and so on.

In addition to an ESG working group, companies may set up a dedicated committee or specific working group to steer climate-change management. A climate change committee secures board-level oversight of strategic climate-related risk and opportunity management. A climate change working group can build the company's capability in relation to climate risk and accelerate the integration of climate considerations into the ERM framework.

"The progress being made by HK-listed companies on their sustainability reporting is clear this year. Beyond improvements in disclosure of KPIs, more companies are articulating how sustainability is part of their governance framework, and setting forward-looking targets to outline how they plan to achieve their sustainability goals."

Mervyn Tang
Senior Director and Global Head of ESG Research, Sustainable Finance, Fitch Ratings

(2) REPORTING QUALITY DOES NOT ALLOW FOR MEANINGFUL COMPARISONS

Following the reporting principles is central to achieving better quality ESG reporting. Under the Revised Guide, it is mandatory for listed companies to disclose sufficient information to apply the four reporting principles: materiality, quantitative, balance and consistency.

However, from our survey results, we found that the information disclosed according to these reporting principles was inadequate. For disclosure on the second reporting principle – quantitative – only 48% of the companies surveyed disclosed standards, methodologies, assumptions, calculation tools used, and conversion factors used for reporting data on emissions or energy consumption, etc. For disclosure on the fourth reporting principle – consistency – less than 29% of the companies surveyed mentioned any changes made to the calculation methods or key performance indicators (KPIs) they had used, or any other factors that may affect the comparison of information in the report.

Furthermore, only 64% of the companies disclosed their reporting boundaries in the report. Among the companies that did disclose their reporting boundaries, only 30% explained the method they had used to determine them.

only **48%**

of the surveyed companies disclosed standards, methodologies, assumptions, calculation tools used

only **29%**

of the surveyed companies mentioned any changes made to the calculation methods or KPIs they had used

RECOMMENDATIONS FOR LISTED COMPANIES

Enhance reporting quality

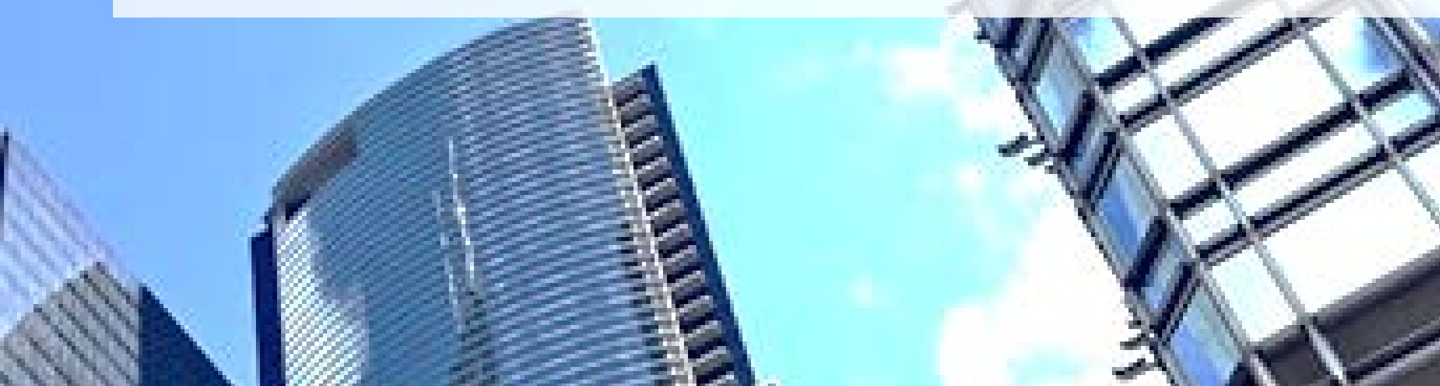
Companies should be aware of the importance of reporting quality to investors. A company's ESG performance is evaluated and analysed based on the information and data presented in its ESG report from time to time. To increase the reliability and accuracy of the content, any changes should be explicitly explained in the ESG report. In addition to the Revised Guide, companies may refer to the Global Reporting Initiative standards for the relevant reporting principles to enhance the quality of their reporting.

For reporting boundaries, it is important to have a consistent and well-defined approach to considering the scope and including appropriate material operations or entities in the ESG report. Companies with a more complex structure may apply their own judging criteria to define the reporting boundaries. Some criteria for consideration are as follows:

- Financial threshold – for example, including subsidiaries with a turnover of more than 5% of the group turnover
- The same reporting boundaries that are used for the annual report
- A control approach – for example, including business operations or entities that have direct operational control

Checklist for reporting quality (for reference only)

1. Give a clear definition of the reporting boundary – How does the company define the scope?
2. Report the changes in reporting boundary – Are there any changes in business operations, and are these operations important to the company? Are the reasons disclosed when restating the scope?
3. Report methodologies for calculating KPIs – What are the principles, references and assumptions made? What calculation methods are used? Are there any changes when compared with previous years?
4. Provide an adequate explanation for not disclosing ESG information – Why has information on certain KPIs not been disclosed?

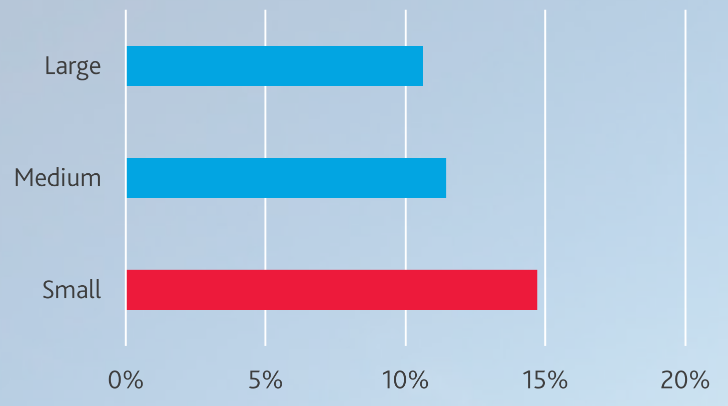


(3) QUALITY OF MATERIALITY ASSESSMENT DISCLOSURE IS REDUCED

Not all ESG issues are relevant to all companies, and not all relevant ESG issues are material to a company. It is critical for a company to gain a comprehensive understanding of the material ESG issues by identifying the risks and available opportunities that may have a material impact on its business operations. Information about a materiality assessment (such as materiality mapping or narrative descriptions of material ESG issues) is important for investors from a long-term perspective, as it helps them understand those issues that companies believe to be most relevant – or material – to the company.

The survey results showed that 60% (2019: 66%) of the companies we surveyed disclosed that they had conducted a materiality assessment, while the remaining 40% did not provide any information about materiality in their ESG reports. Of this 40%, small listed companies were the most likely not to mention a materiality assessment (see figure 7).

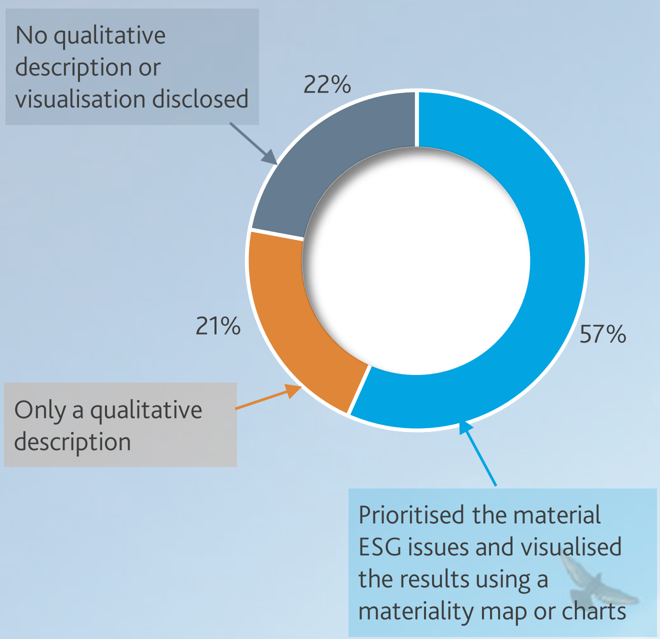
Figure 7: Companies that did not disclose conducting a materiality assessment, by size



60%

of the surveyed companies disclosed that they had conducted a materiality assessment

Figure 8: Quality of information disclosed on materiality assessments



Among those companies that did conduct a materiality assessment, information disclosed was often inadequate. Only just over **50%** of those companies provided comprehensive descriptions of how the ESG issues had been prioritised and presented the results through visual aids, such as a materiality map (see figure 8).

Among the 22% of the companies shown in figure 8, 66% were small listed companies, and property and construction was the sector in which the most companies did not disclose any information on materiality assessments.

When companies do not disclose adequate information about their materiality assessments, investors may find it difficult to ascertain whether the data being reported is relevant to their investment decisions.

Stakeholder engagement is one of the major sources of information for materiality considerations. Our survey results showed that the key stakeholders in the companies surveyed included investors and shareholders, customers and clients, suppliers, business partners, government/regulators, employees and local communities.

RECOMMENDATIONS FOR LISTED COMPANIES

There is no standard approach to conducting materiality assessments and no universally accepted definition of materiality. Material issues may be interpreted as factors that may have a significant financial or non-financial impact on a company or that may strongly influence an investor when he or she is making an investment decision about the company. Each entity faces a unique set of ESG issues. When conducting a materiality assessment, listed companies should take a holistic view by considering the industry factors, the size of the entity, its chosen strategy and business objectives, stakeholders' concerns, etc. Listed companies may wish to include the following elements (among others) in their materiality assessment:

- Re-evaluating previous assessments
- Reviewing the relevant standards
- Engaging with internal and external stakeholders
- Benchmarking their strategy against industry and broader corporate best practice
- Reviewing operational impacts and sustainability trends

Consider industry factors

When conducting materiality assessments, listed companies must consider the environmental and social aspects set out in the Revised Guide. However, they should also incorporate industry factors into their materiality assessment. Disclosing factors that are related to a particular industry could show investors that these industry-specific ESG concerns have been adequately considered and addressed by the company. Listed companies may make reference to global reporting frameworks, such as:

- Global Reporting Initiative standards; and
- Sustainability Accounting Standards Board standards.

These frameworks provide industry-specific guidelines for reporting a full range of economic and ESG impacts of operations in a particular industry. For instance, the Sustainability Accounting Standards Board has developed a set of 77 investor-focused industry-specific sustainability accounting standards, including assumptions about the predominant business model and industry segment. The Global Reporting Initiative has also issued sector standards in relation to health and safety, waste and water, and effluent.

“Nowadays, corporations are expected to take care not only of its business performance but the greater good of the society and environment, and be responsible not only to shareholders but a larger group of stakeholders. A company's performance is measured not simply by the growth of financial capital but human and social capital as well. Therefore, it is of critical importance that listed companies rethink their business strategies and have them aligned with the new ESG demands.”

Mike Wong
CEO, The Chamber of Hong Kong Listed Companies

Link stakeholder engagement feedback with materiality assessment

Engaging internal and external stakeholders is one way for a company to identify issues or risks that are related to a broader group of stakeholders than anticipated or that have been overlooked by management. Concerns or issues raised by stakeholders should be consolidated with risk factors identified through other means in order to form an overall ESG risk inventory for the management and the board to consider further and for the materiality assessment.

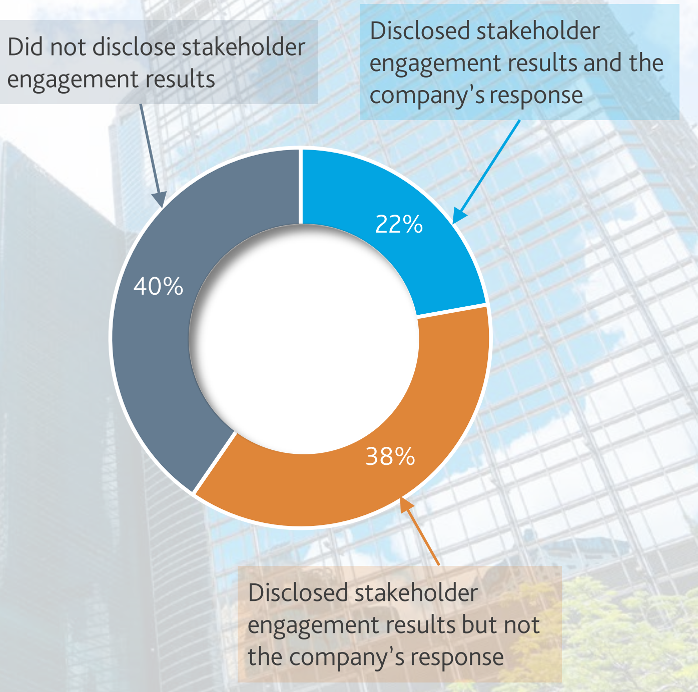
The survey results showed that the percentage of companies surveyed that had conducted stakeholder engagement had increased slightly to 76% (2019: 72%). Among these companies, 85% disclosed their process for conducting stakeholder engagement. However, the results of this stakeholder engagement were not always adequately disclosed (see figure 9).

It is recommended that companies disclose their response (with a narrative description of materiality considerations) alongside the results of their stakeholder engagement. This will inform readers of whether or not the concerns raised by stakeholders are material to the company and what strategies or measures have been formulated to address them.

85%

of the surveyed companies disclosed their process for conducting stakeholder engagement

Figure 9: Disclosure of stakeholder engagement results



(4) DISCLOSURE OF ISSUES RELATED TO CLIMATE CHANGE IS LIMITED

only **12%**

of the surveyed companies mentioned issues related to climate change

Climate change is a new addition to the Revised Guide. Listed companies are now required to disclose their policies on identifying and mitigating any significant climate-related issues that have impacted, or may impact, the listed company, and the action taken to manage them. The financial risks that stem from climate change are associated with two main channels: physical risk (such as more frequent and more severe weather events, rising sea levels and changes in temperature) and transition risk (such as new laws, changes in consumer preferences, class action and legal cases).

Given that the new disclosure requirement on climate change had not come into effect by the time the surveyed listed companies prepared their ESG reports, our survey results showed that only 12% of the companies mentioned issues related to climate change. Among these companies, we found that:

- over half (54%) disclosed the climate-related risks and opportunities that applied to them; and
- most (83%) reported on measures they had adopted to mitigate their climate-related risks.

The discrepancy between these two figures may suggest that companies are not adopting a systematic approach to linking their strategy with the potential climate risks. We also found that larger companies were more likely to consider climate risks and ways to mitigate them (see figures 10 and 11).

The Task Force on Climate-related Financial Disclosure (TCFD) is a global framework that provides guidance on disclosing the financial impact of climate-related risks and opportunities. The Revised Guide also recommends that listed companies disclose impacts related to climate change with reference to the TCFD Framework, as stated in HKEx's publication "How to Prepare an ESG Report: A Step-by-Step Guide to ESG Reporting".

Our survey results showed that among the companies that reported on climate change, only 15% made reference to the TCFD Framework when disclosing information related to climate change. Most of these were large listed companies from the healthcare, financial and telecommunications industries. Unfortunately, we found that the adoption of scenario analysis was insignificant: only one company reported that it had conducted a scenario analysis of the potential impact of climate change on business operations.

Figure 10: Companies reporting on climate risks

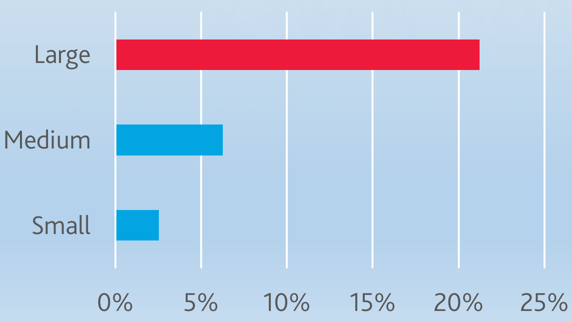
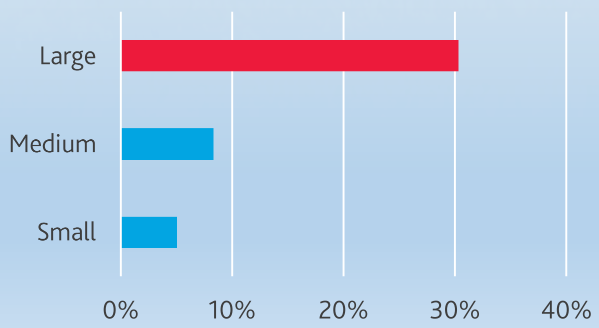


Figure 11: Companies reporting on mitigating climate risks



Examples of the types of risks and opportunities related to climate change that were identified by listed companies in different industry sectors are shown in table 2.

Table 2

Industry	Risk	Opportunity
Consumer discretionary	Extreme weather and depletion of resources	Local supply chain, green procurement and resource efficiency (e.g. renewable energy)
Consumer staples	Extreme weather that endangers the safety of customers and property	Green procurement
Healthcare	Increase in natural disasters and introduction of new policies	Energy efficiency (e.g. renewable energy)
Financial services	Global warming and extreme weather, which may lead to property damage and illness	Sustainable procurement, responsible finance, extending insurance coverage
Industrials	Extreme weather, new policies and changes in the market	Green construction, energy efficiency, sustainable supply chain
Utilities	Extreme weather and natural disasters may lead to economic loss	Climate-resilient power equipment (e.g. refine components and structure)
Resources	Extreme weather may disrupt transportation networks and lead to staff safety issues	Resource efficiency (e.g. recycled materials) and development of safety protocols
Properties and construction	Extreme weather and natural disasters may lead to property safety issues and depletion of water resources	Climate-resilient buildings and resource efficiency (e.g. water and energy)
Telecommunications	Climate-related disasters	Energy efficiency

RECOMMENDATIONS FOR LISTED COMPANIES

Elaborate on the impact of climate change on the business model

In the face of climate change challenges, many listed companies are developing a governance structure to manage the risks and are changing their business model, strategic goals and objectives with a view to achieving long-term sustainability and making the transition to low-carbon operations. The key components of a business model may include, but are not limited to:

- a value proposition;
- target customers and key suppliers;
- products and services;
- critical production facilities and equipment; and
- logistics and supply chain.

Companies should be specific about how climate change may affect the above components of their business model from a strategic point of view. Companies may wish to consider the following things:

- The strategies adopted in response to challenges related to climate change and in different climate scenarios (such as a temperature rise of 1.5 degrees, 2 degrees or more), with reference to international studies reported by companies such as the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA)
- The long-term strategy for making the transformation to low-carbon or zero-carbon business operations
- A roadmap for making changes to products or services, key business divisions, facilities or the supply chain in the short, medium and long term
- A description of the risks and opportunities in the short, medium and long term, and the operations that may be affected

Specify the nature of climate risks that may impact the business

The companies we surveyed disclosed the climate risks that they are facing but did not reveal enough detail about the types of climate events that may affect specific aspects of their business operations. Listed companies should disclose, for example, the kinds of extreme climate events that would be highly likely to impact the business and what critical business processes or assets would be affected by these events. Listed companies should also disclose whether their stakeholders they rely heavily on, such as customers or suppliers, would also be affected by specific climate risks.

"As the world has come to the concurrence about the significance of global sustainability and climate change, ESG disclosures are increasingly relevant to various stakeholders, ranging from local communities to global investors. It is encouraging to see the enduring efforts of BDO in examining progress on ESG reporting performance among the Hong Kong listed companies."

Dr Artie Ng
Deputy Director and Principal Lecturer, PolyU SPEED

Table 3 provides some examples for reference.

Table 3

Climate risk	Possible impact
More frequent and severe weather events – e.g. storms and floods	• Disruption to the company's own operations and supply chain, as well as to those of the people and companies it has entered into contracts with. • Physical damage to real estate and physical assets, and heightened risks to infrastructure in affected regions. • Impact on business viability of the people and companies it has entered into contracts with, particularly for those with inadequate insurance.
Rising sea levels	• Production facilities and commercial properties in flood prone areas become uninsurable, physical damage, etc.
Increases in temperature	• Extreme heat events may reduce the performance of substations and transmission equipment, for example by causing power cuts and reducing the efficiency of energy transformation in substations. Some components may not be operational when a high threshold temperature is reached.
Combination of hazards	• Frequent climate-related disruption of telecommunications services may have a negative impact on an operator's brand and reputation, causing customers to switch providers. On the other hand, operators who continue to provide excellent service during extreme weather events may gain reputational advantage.
Water stress	• In regions where water is projected to become less accessible or available, property owners may have to make significant investments in water supply or treatment facilities in order to enable the normal operation of their assets.

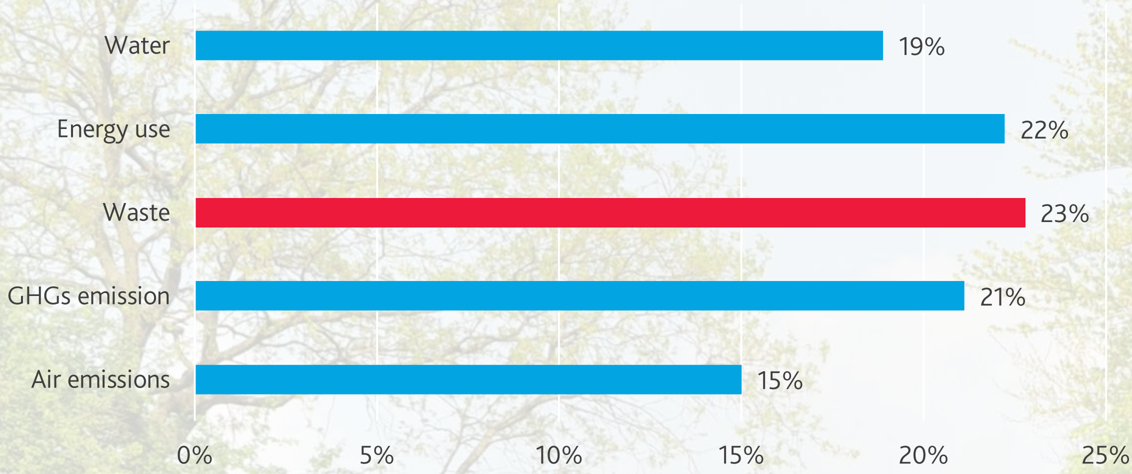
(5) TARGET-SETTING FOR ENVIRONMENTAL KPIs IS LIMITED

only 15%
of the surveyed companies set targets for environmental KPIs

Listed companies have disclosed their environmental KPIs in the past, and as a result of the Revised Guide, they are now required to disclose, under the “Comply or explain” provisions, their emissions target (KPI A1.5), their reduction target for hazardous and non-hazardous waste (KPI A1.6), their energy use efficiency target (KPI A2.3) and their water efficiency target (KPI A2.4).

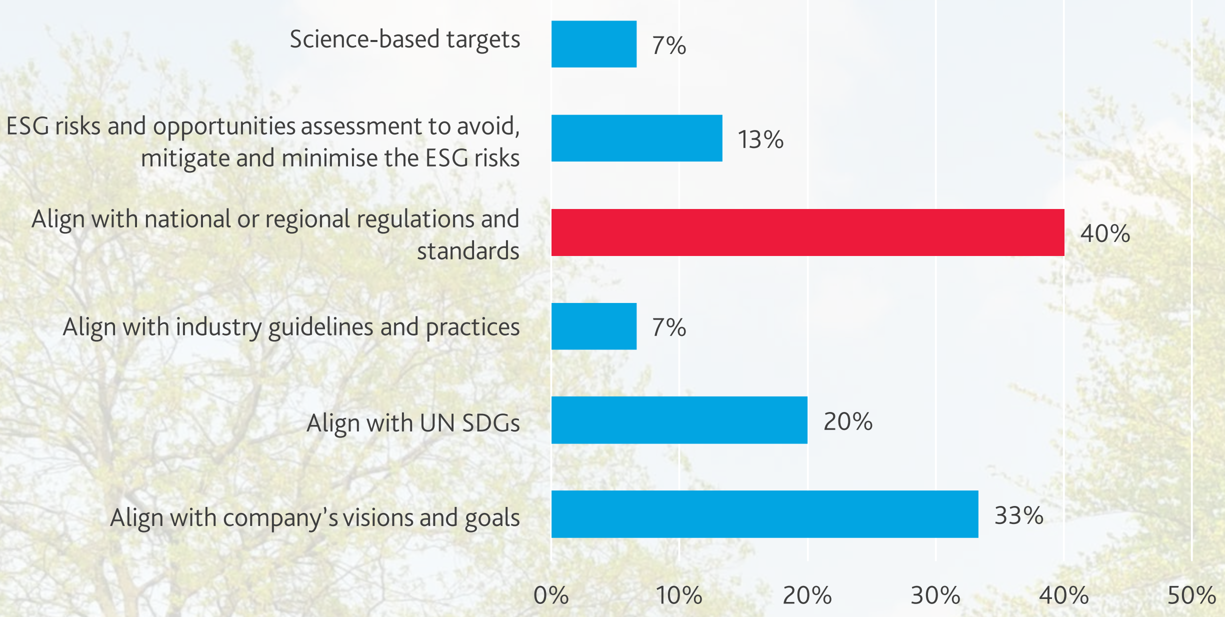
Our results showed that only 15% of the companies we surveyed set targets for environmental KPIs, and these targets were mainly set by large listed companies. Among these companies, the most common targets set for environmental KPIs were for reducing waste, energy consumption and greenhouse gases (GHGs) (see figure 12).

Figure 12: Types of target set for environmental KPIs



The companies surveyed adopted a variety of approaches to setting the targets for their environmental KPIs. The most common ones were to align KPI targets either with the company's visions and goals (33%) or with national or regional laws and regulations (40%) (see figure 13).

Figure 13: Surveyed companies' approaches to setting environmental KPI targets



Focusing on those companies that had set targets for KPIs, we identified the common key areas where targets had been set and grouped these by industry. These results are shown in table 4.

Table 4

Sector	Key target area (percentage of companies surveyed)
Energy	Energy (100%)
Materials	Waste, energy, water (100%)
Industrial	Waste (80%)
Consumer discretionary	Energy (73%)
Consumer staples	Waste, energy (50%)
Healthcare	Energy (100%)
Telecommunications	GHGs (100%)
Utilities	Air, GHGs, energy (50%)
Financial services	GHGs, energy, water (75%)
Property and construction	Waste (82%)
Information technology	GHGs, waste, energy, water (60%)

RECOMMENDATIONS FOR LISTED COMPANIES

KPIs and targets help companies to manage the risks and opportunities associated with climate change. They are useful tools for monitoring and managing the impact of business operations on the environment in order to achieve strategic goals, ensure long-term sustainability and become a low-carbon business.

Align with the goals of the Paris Agreement

Among the approaches used by the companies surveyed (as shown in figure 13), only 7% adopted the science-based targets method. Most of the others set their targets for compliance with, or to complement, their strategic direction.

Although the presence of environmental targets enables companies to gauge their environmental performance and estimate when they will be able to reduce the impact of their operations to a desired level, it is more important that companies align their strategic goals with those of the Paris Agreement in order to achieve net-zero emissions.

When setting targets for their environmental KPIs, companies may make reference to international methods such as:

- the Paris Agreement's Capital Transition Assessment method;
- the Science Based Targets initiative's Sectoral Decarbonisation Approach; or
- the 2-degree investing initiative.

Enhance the quality of disclosing environmental impacts

To give investors a comprehensive overview of the company's environmental footprint, companies should disclose more background information about the environmental KPIs in their ESG report and how these KPIs relate to their business operations. Companies may consider disclosing the following information:

- The sources of each environmental KPI
- The portion of the group's revenue or expenditure that each KPI accounts for
- Whether a life-cycle assessment has been conducted to evaluate the potential environmental impacts of a product, material, process or activity
- In addition to comparative figures for the previous year, the comparative figures for the past five years – so investors can see the trend and the extent of improvements made by the company to reduce its environmental impact
- Environmental policies and a roadmap for reducing impact
- Long-term and short-term reduction initiatives and action plans for achieving the targets
- How appropriate KPIs are used to track performance and how regularly the results are reviewed

Expand disclosure to include Scope 3 emissions

The Revised Guide requires listed companies to disclose direct and energy-indirect GHGs. However, to be transparent and give investors a full understanding of a company's carbon footprint, we recommend that listed companies also consider disclosing their Scope 3 emissions. According to the Greenhouse Gas Protocol, there are 15 types of Scope 3 emissions. Listed companies may disclose information about the types of emissions that are relevant to their individual situation.

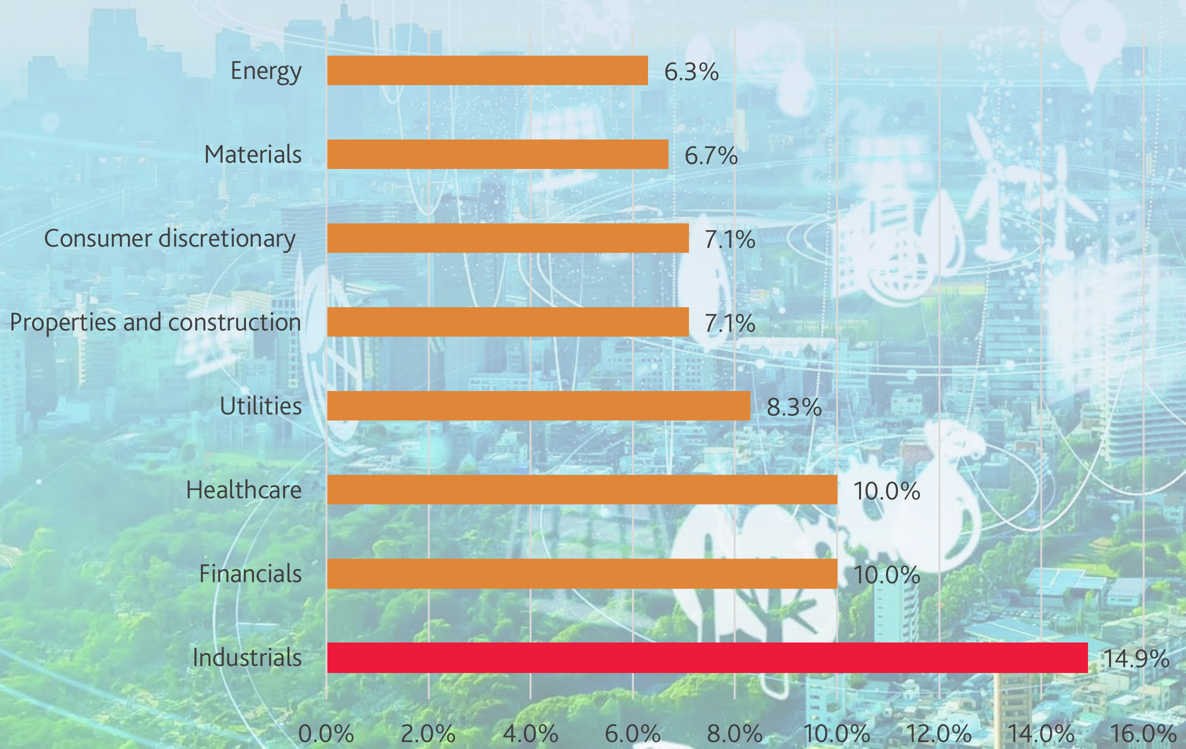
(6) RECOGNITION OF UN SDGS ON CLIMATE ACTION IS STRONGER

8%

of the surveyed companies identified SDGs that were relevant to their business operations and strategic goals

According to the survey results, there is a growing trend of listed companies recognising the United Nations Sustainable Development Goals (UN SDGs). This year, 8% (2019: 6%) of the listed companies surveyed identified SDGs that were relevant to their business operations and strategic goals (see figure 14).

Figure 14: Companies identified relevant UN SDGs by industry



Our survey results showed that this year, more of the companies we surveyed had identified UN SDG 13 (Climate Action) as relevant to their business operations. This makes it one of the top 3 UN SDGs among the companies surveyed this year, overtaking UN SDG 3 (Good Health and Well-Being), which was included in last year's top 3 (see figure 15).

Figure 15: Top 3 UN SDGs identified by companies surveyed

Year of Survey	Top-three UN SDGs identified by the surveyed companies
2020	13 CLIMATE ACTION; 8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
2019	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 3 GOOD HEALTH AND WELL-BEING

We observed that some companies in the same industry had some relevant UN SDGs in common (see figure 16).

Figure 16: Shared UN SDGs, by industry

Healthcare	Industrials	Properties and construction	Financials	Consumer discretionary
3 GOOD HEALTH AND WELL-BEING; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	3 GOOD HEALTH AND WELL-BEING; 11 SUSTAINABLE CITIES AND COMMUNITIES	13 CLIMATE ACTION	8 DECENT WORK AND ECONOMIC GROWTH

Case study

Example: A company from the property and construction industry

Why has the company adopted the UN SDGs?

- ✓ To integrate their business strategy and operations with social needs and stakeholders' concerns
- ✓ To be in alignment with global targets, bring new insights and explore ways of contributing through day-to-day operations
- ✓ To enhance their corporate vision for 2030 by including more specific and quantifiable targets

How does the company integrate the UN SDGs into its business model?

- ✓ By mapping the six UN SDGs that are most relevant to the group
- ✓ By integrating the UN SDGs into their long-term strategy and including relevant targets in their sustainability vision for 2030
- ✓ By updating their operational practices to reflect social change and emerging values

Examples:

- ➢ Driving initiatives for assessing climate risk and vulnerability
- ➢ Extending the scope of their green procurement manual by developing a sustainable procurement manual

Benefits achieved:

1. Meet and even exceed stakeholders' expectations
2. An opportunity to address complex sustainability challenges by scaling up efforts through collaboration with partners, industry and sector organisations, customers, government, non-profit organisations and wider society

RECOMMENDATIONS FOR LISTED COMPANIES

Integrate UN SDGs to create more positive outcomes

In 2015, the United Nations member states unanimously adopted Agenda 2030, which contains 17 UN SDGs. These sustainable development goals focus on social issues (such as poverty and education) and environmental issues (such as climate change and biodiversity), but they also refer to economic growth, reducing inequality, and innovation. While these goals are at the national level, companies that aspire to contribute to attaining the goals and create positive outcomes can use the UN SDGs to influence the strategic direction and develop sustainability policies.

Some of the key benefits for companies that integrate the UN SDGs into their business strategy and operations are shown below:

Business for purpose

Gain synergies in the company's business model to achieve primary social and environmental aims while focusing on profitability and sound business sense

Identify business opportunities

Tap into growing markets by delivering innovative solutions and transformative change to overcome challenges and attain the SDGs

Communicate and collaborate

Enable communication with stakeholders about their impact and performance, and collaborate with partners to address global challenges and enhance reputation

Enhance relationship and reputation

Strengthen engagement with stakeholders, such as employees, customers and suppliers. Align your mutual interests to pursue shared SDGs and values

Achieve SDGs while managing ESG risks

Challenges represented by SDGs may be related to ESG risk factors that affect a company's operations. By addressing SDGs and ESG risks at the same time, companies gain synergy

Attract capital

SDGs channel investment into meeting global challenges. Companies benefit from new sources of capital as investors align their ESG interests by putting money into companies that integrate SDGs in their business operations

When carrying out SDG reporting, companies may wish to take the following steps:

- Identify and understand the impact of all the SDGs and targets on the business portfolio
- Align SDGs with strategic targets that may have a critical impact on business operations and may require significant changes to be made
- Prioritise the SDGs and targets
- Determine objectives that contribute to meeting the prioritised SDGs and targets
- Formulate company performance targets, KPIs and management approaches
- Monitor, track and review progress towards implementation within a scheduled timeframe

(7) INDEPENDENT ASSURANCE ON ESG REPORTING REMAINS STEADY

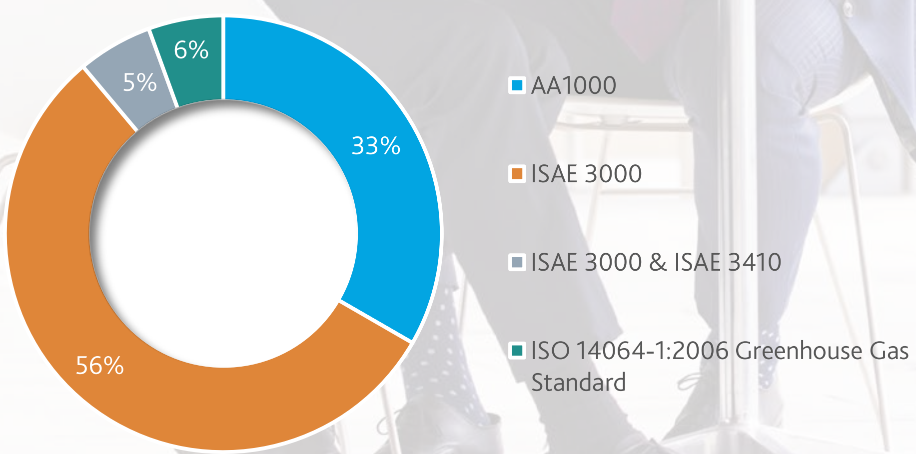
only 5%

of the surveyed companies obtained independent assurance of the ESG reports

Independent assurance may enhance the credibility of the ESG information disclosed by a company and the quality of the company's ESG reporting. It can provide investors with more reliable data for analysis and more transparency. The Revised Guide recommends that listed companies may seek independent assurance on their ESG reports. Having said that, no widely accepted standard is available for assurance on ESG reporting.

Our survey results showed that independent assurance was obtained for only 5% of the ESG reports published by the companies we surveyed. There were no significant changes in these results when compared with the results for the previous two years. Among the companies that had sought independent assurance for their ESG reports, 56% obtained assurance for the whole report. Different standards were used for evaluating the reports, and over half of the reports were assured based on the International Standard on Assurance Engagement (ISAE) 3000 (see figure 17).

Figure 17: Assurance standards used for ESG reports



RECOMMENDATIONS FOR LISTED COMPANIES

Ensure the credibility of reports by obtaining independent assurance

To ensure the credibility and transparency of the ESG data they disclose, listed companies should start by obtaining independent assurance on certain key information, such as their environmental or social KPIs, instead of the content of the whole ESG report. Companies may choose to have the whole report assured once they have accumulated enough experience to be comfortable with ESG reporting.

On 2 November 2020, the Hong Kong Institute of Certified Public Accountants issued an Exposure Draft Technical Bulletin AATB5, "Environmental, Social and Governance (ESG) Assurance Reporting", for public consultation. The consultation closed on 2 December 2020 and the bulletin was finalised and published on 17 December 2020.

Although no accepted standard is available for the time being, when preparing for ESG report assurance, companies may make reference to the AATB5.

CONCLUSION

ESG reporting is not just about demonstrating compliance. An ESG report is a useful tool that allows companies to communicate information to stakeholders about ESG performance and progress towards addressing operational challenges, including those relating to climate change. Individuals who use ESG reports focus on relevant and material ESG issues that are affecting the business operations of a company. They want to see the board of a company playing a vital role in driving ESG strategy and ensuring that ESG issues (risks and opportunities) are integrated into the ERM framework and the functions across the company.

To enhance the credibility and transparency of their ESG reports, companies may seek independent assurance on certain ESG data or even the content of the whole report. Finally, for effective management of ESG issues, knowledge and capacity-building on ESG and climate change are essential for enabling the board and management to navigate the global sustainability landscape.

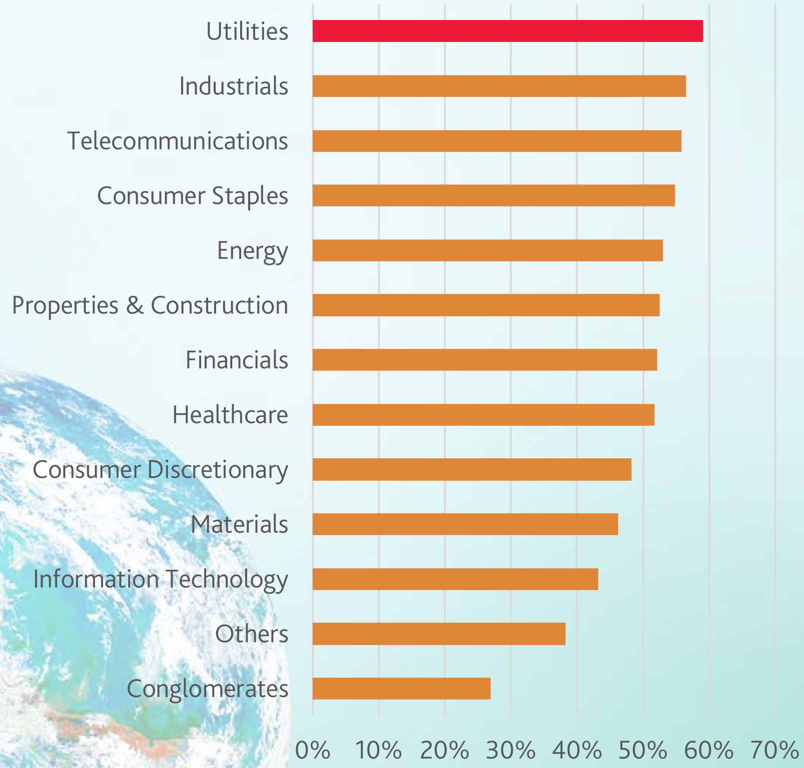
APPENDIX

Disclosure of social KPIs

Under the "Comply or explain" provisions of the Revised Guide, listed companies must disclose information about their performance regarding social-related KPIs. Our results showed that only 9% of the companies we surveyed disclosed all the social KPIs in accordance with the Guide. There was a strong correlation between disclosure of social KPIs and the size of the company and revenue, with larger listed companies more likely to disclose their social KPIs.

The utilities, industrial and telecommunications industries were the top sectors for disclosing the recommended social KPIs (see figure 18).

Figure 18: Voluntary disclosure of social KPIs, by industry



We also analysed the disclosure of social KPIs against the recommendations that applied when the companies were preparing their ESG reports. From this analysis, we noted that more than half (52%) of the social KPIs were disclosed voluntarily by the companies we surveyed. Our observations are summarised in table 5 below:

Table 5

Observation	Survey results
Limited disclosure of new social KPIs (1% of companies surveyed disclosed information in line with the new requirements)	• Description of anti-corruption training provided to directors and staff (17%) • B5.4 (18%) and B5.3 (24%) regarding supply-chain management of environmental and social risks, and practices used to promote environmentally preferable products and services
Social KPIs with more disclosure	• B2.3 Implementation and monitoring of health and safety measures (83%), B1.1 Total workforce distribution (74%), B4.1 Practices used to avoid child and forced labour (72%)
Social KPIs with less disclosure	• B6.1 Products recalled due to health and safety concerns (33%), B5.1 Number of suppliers (41%), B1.2 Turnover rate (45%) • B4.2 Description of steps taken to eliminate such practices when discovered (50%), B6.3 Intellectual property rights (54%), B6.4 Quality assurance and recall procedures (55%)

The rest of the survey results for disclosure of social KPIs are shown in figure 19 below:

Figure 19: Disclosure of social KPIs

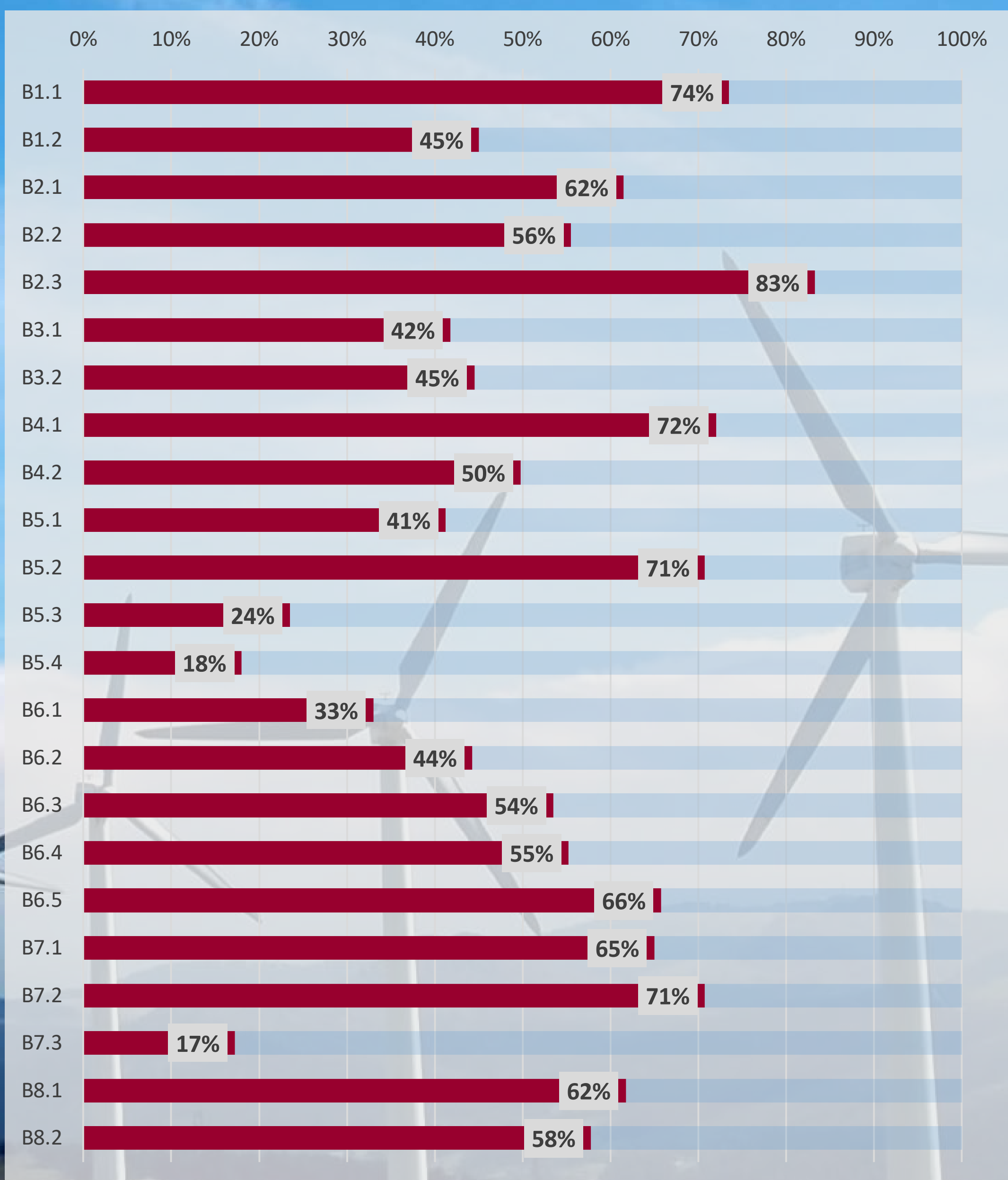


Figure 19: Disclosure of social KPIs (continued)

KPI B1.1	Total workforce, by gender and employment type (for example, full time or part time), age group and geographical region.
KPI B1.2	Employee turnover rate, by gender, age group and geographical region.
KPI B2.1	Number and rate of work-related fatalities that occurred in each of the past three years, including the reporting year.
KPI B2.2	Lost days due to work-related injuries.
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.
KPI B3.1	Percentage of employees trained, by gender and employee category (e.g. senior management, middle management).
KPI B3.2	Average number of training hours completed per employee, by gender and employee category.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.
KPI B4.2	Description of steps taken to eliminate such practices when discovered.
KPI B5.1	Number of suppliers, by geographical region.
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers for which the practices are being implemented, and how they are implemented and monitored.
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.
KPI B6.1	Percentage of total products sold or shipped that have been recalled for health and safety reasons.
KPI B6.2	Number of complaints received about products and services, and how they are dealt with.
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.
KPI B6.4	Description of quality assurance processes and recall procedures.
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period, and the outcomes of the cases.
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.
KPI B7.3	Description of anti-corruption training provided to directors and staff.
KPI B8.1	Focus areas contributed to (e.g. education, environmental concerns, labour needs, health, culture, sport).
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.

Other results

In addition to the newly revised requirements, we have monitored other areas of concern over the past three years. These areas include employee practices, occupational health and safety, product and service quality, anti-corruption and reporting standards. From the comparative figures, it can be observed that in most areas, the trend remains unchanged or has even declined. Slightly more companies conducted stakeholder engagement and sought assurance for their report this year than in previous years. However, companies still have little incentive to go beyond the level of compliance, and they are not fully acknowledging the potential risks and opportunities associated with ESG issues.

Table 6 presents a summary of companies' ESG performance according to BDO's survey results for the last three years.

Table 6

Area	2018 Survey	2019 Survey	2020 Survey	Increase ↑ / Decrease ↓ / Maintained →
Stakeholder engagement	63%	72%	76%	↑
Materiality assessment	51%	66%	60%	↓
Report assurance by independent third party	4%	3%	5%	↑
Goals for ESG management	17%	15%	13%	↓
Staff career development programmes	51%	61%	60%	→
Occupational health and safety training	77%	69%	64%	↓
Customer support and services	68%	67%	63%	↓
Whistle-blowing system	60%	67%	65%	↓
Independent committee for anti-corruption management	26%	23%	16%	↓
Adoption of reporting standards/guidelines other than the ESG Reporting Guide	10%	9%	10%	→
Anti-corruption training	–	37%	17%	↓

HOW CAN BDO HELP:
ESG AND SUSTAINABILITY SERVICES

BDO Risk Advisory Services team possesses experience and expertise in ESG reporting and risk management and allow us to support you with a broad range of ESG services that can be tailored to meet your needs. Our support covers the following areas:

ESG Governance and Reporting

Our ESG professionals can help review your ESG reporting processes including materiality assessment, data collection and compilation, methods of reporting and disclosure mechanism in fulfilling current reporting requirements or adoption of international reporting standards such as GRI. With our extensive knowledge in ESG reporting accumulated from our ESG Reporting Performance Surveys, we can benchmark your company's reporting with latest industrial practices and make recommendations to enhance your reporting transparency. Our ESG governance and reporting services also cover:

- ESG governance review
- ESG risk management review
- Stakeholder engagement
- Target setting of environmental and social KPIs
- Board awareness training on ESG
- Mapping and integrating UN Sustainable Development Goals (SDG) into strategy

Climate-related services

Our professionals can help you to understand how your business operations may be exposed to climate-related physical risks and the potential impact of regulatory and economic under the transition to a low-carbon economy. We can help develop comprehensive response that address risks and seize opportunities along the transition pathway. Our climate-related services also cover:

- Greenhouse Gas management
- Mapping climate-related risks
- Climate resilience business strategy advisory
- Climate change risk assessment
- Verification of carbon footprint

Supply chain risk management and audit

When a supply chain is disrupted, the company is at risk of failing to meet production or delivery commitments it has made to its customers. The Reporting Guide requires listed companies to identify and mitigate ESG risks along the supply chain. These risks may relate to trade ethics, corruption, child labour, carbon or water footprint, human rights violation, environmental breach, contract management, data protection, etc. Our professionals can help manage your supply chain risks by providing a risk-based, systematic supply chain due diligence and making practical recommendations.

Independent Assurance on ESG Report

Independent assurance can enhance the credibility of the ESG information disclosed by a company and the quality of the company's ESG reporting. It can provide investors with more reliable data for analysis. The Reporting Guide recommends that listed companies may seek independent assurance on their ESG reports. We can help provide an independent assurance on your ESG report including certain ESG data, content of the report, compliance with international reporting frameworks, etc.

ABOUT BDO

BDO Global

BDO is the world's fifth largest global accounting and advisory network. BDO's global organisation extends across 167 countries and territories, over 91,000 professionals working out of 1,658 offices. BDO endeavors to deliver truly exceptional client service through a tailored solutions approach, while partnering with our employees and clients globally.

BDO in Hong Kong

BDO in Hong Kong, as part of the international BDO network, has committed to provide our clients with exceptional service since the establishment in 1981. BDO currently has over 60 directors and 1,100 staff in Hong Kong.

Our highly qualified professionals conform to the highest international standards in an extensive range of professional services, including:

- Assurance Services
- Business Services & Outsourcing
- Private Client Services
- Risk Advisory Services
- Specialist Advisory Services
- Tax Services

BDO Risk Advisory Services

Risk management and internal audit have always been the cornerstones of good corporate governance. Increased regulation, greater public scrutiny and increased globalisation have placed reliance on the Board, the Audit Committee and executives to oversee the effectiveness of risk management, financial operations and internal control systems. For large and small businesses alike, our Risk Advisory Service (RAS) Team has assisted companies in delivering enhanced corporate governance practices, including evaluating the performance of the internal audit function – from conducting a thorough assessment of risk across the organisation, to designing strategic internal audit programmes, to reporting findings to management, the Board and other stakeholders.

As well as identifying issues, we work with management to ensure that tailored solutions and appropriate controls are in place. At BDO, our RAS team is comprised of a group of dedicated and experienced professionals, enabling us to provide a wide variety of professional services including:

- Outsourced or co-sourced internal audit services
- IT and cyber security and digital services advisory
- ESG and sustainability reporting advisory
- Financial services advisory
- ISO certification assistance
- Corporate governance training
- Data privacy

BDO ESG SUBJECT MATTER ADVISORS

If you have any questions, comments or suggestions, please contact us. To learn more about BDO Risk Advisory Services, please visit www.bdo.com.hk/en-gb/services/advisory/risk-advisory

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