

An aerial photograph of Hong Kong, showing a dense urban skyline with numerous skyscrapers and high-rise buildings. The city is built on a steep, green hillside, with a large, lush forest in the foreground. The Victoria Harbour is visible in the background, with several boats and ships. The sky is clear and blue. The overall scene is a mix of urban development and natural greenery.

RESULT OF THE ANNUAL SURVEY ON THE PERFORMANCE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORTING OF HONG KONG LISTED COMPANIES IN FY2017/18

19 September 2018



AGENDA

- ▶ Background
- ▶ Survey methodology and population
- ▶ Survey key findings
- ▶ Opportunities and challenges
- ▶ BDO recommendations
- ▶ About BDO in Hong Kong



BACKGROUND

SECOND YEAR OF COMPULSORY ESG REPORTING

- ▶ Effective on 1 January 2016, Hong Kong Exchanges and Clearing Limited (HKEx) requires all Hong Kong listed companies to disclose their environmental, social and governance (ESG) performance every year.
- ▶ Environmental KPIs upgraded to “Comply or Explain” in 2017

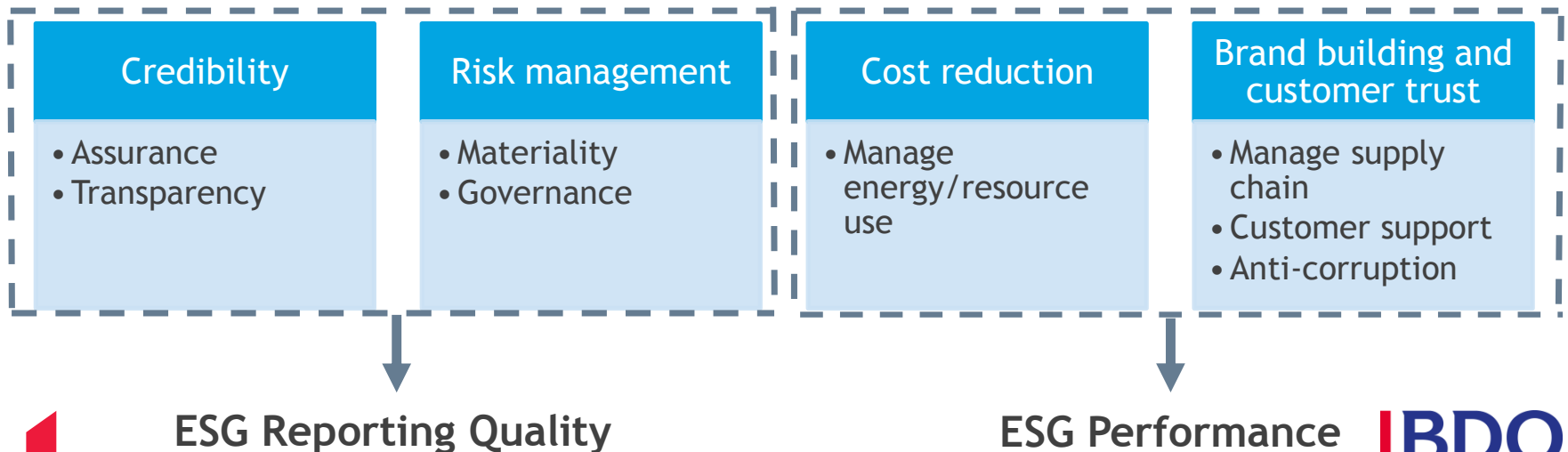
	Subject area A - Environmental	Subject area B - Social
General disclosure (GD)	Comply or Explain	Comply or Explain
Key Performance Indicators (KPIs)	FY2016 - “Recommended disclosure” FY2017 - “Comply or Explain”	Recommended disclosure



SURVEY METHODOLOGY & POPULATION

METHODOLOGY

- ▶ Reviewed latest publicly available information in ESG reports (either integrated in annual reports or separated as standalone)
- ▶ Research and analysis were based on ESG reports published on or before 31 May 2018
- ▶ ESG reports were scored based on the eight core subjects on ESG report quality and performance
- ▶ BDO ESG Scoring Mechanism:



POPULATION

- ▶ **400 Main Board & GEM** listed companies
(vs 300 Main Board companies in 2017 survey)
 - 331 in Main Board
 - 69 in GEM

- ▶ Sample included constituents of the following three indices:
 - Hang Seng Index (HSI)
 - Hang Seng China Enterprises Index (HSCEI)
 - Hang Seng Corporate Sustainability Index (HSSUS)

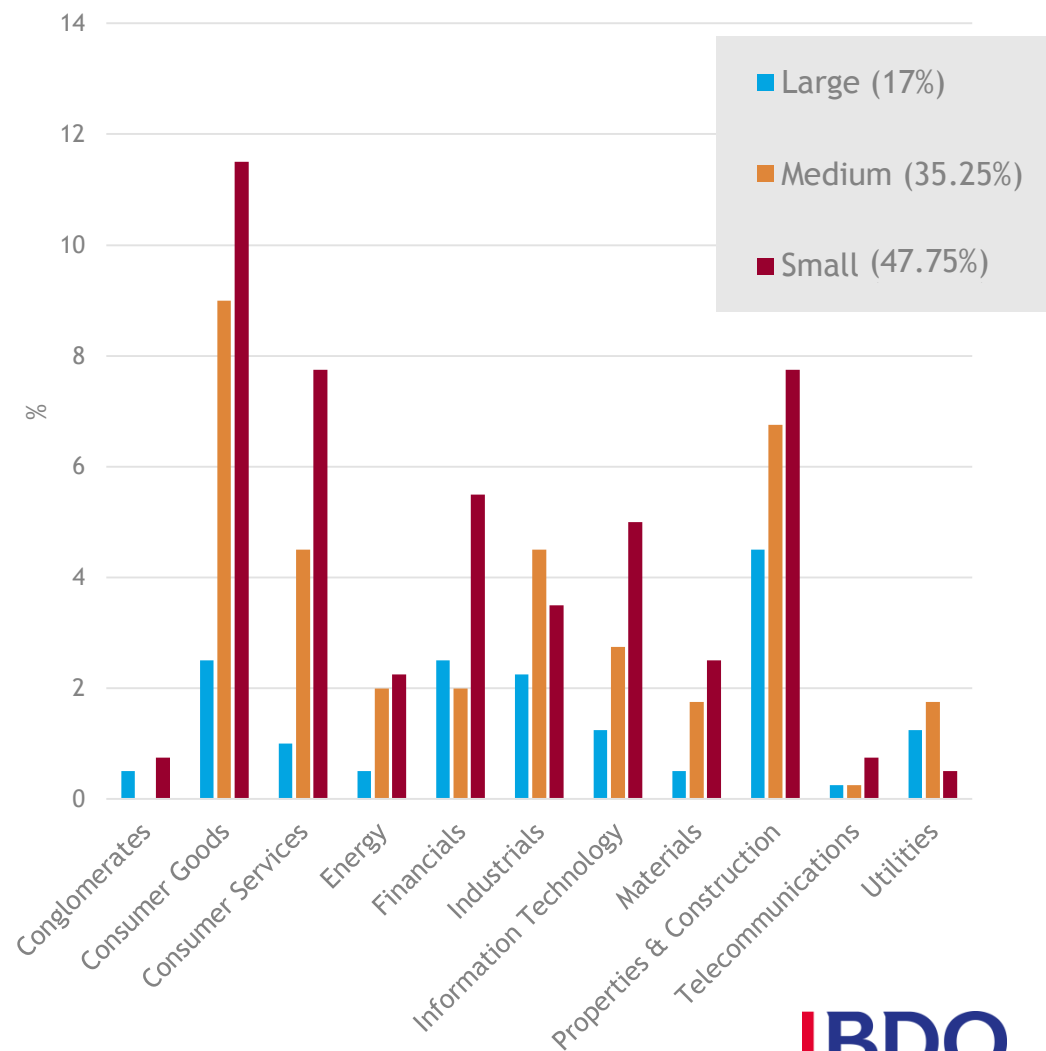
Index	Percentage (%)
HSI	3
HSCEI	2.25
HSSUS	5.5
Non-index	92

Note: Some companies surveyed are listed in more than one index

COMPANY CLASSIFICATION BY INDUSTRY & COMPANY SIZE

Industry Types	Total	%
Conglomerates	5	1.25%
Consumer Goods	92	23%
Consumer Services	53	13.25%
Energy	19	4.75%
Financials	40	10%
Industrials	41	10.25%
Information Technology	36	9%
Materials	19	4.75%
Properties & Construction	76	19%
Tele-communications	5	1.25%
Utilities	14	3.5%
	400	100%

(*Hang Seng Industry classification system)

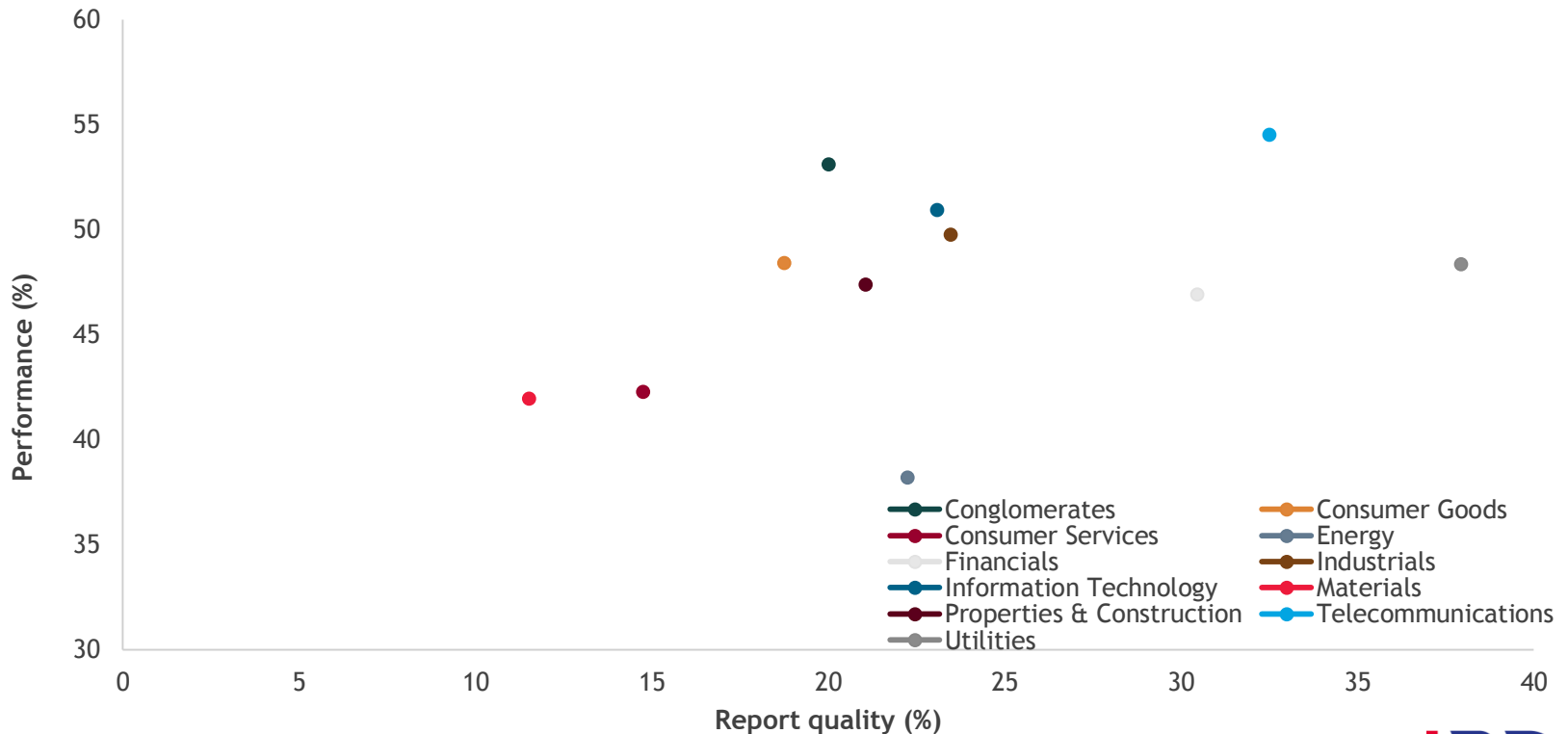




SURVEY KEY FINDINGS

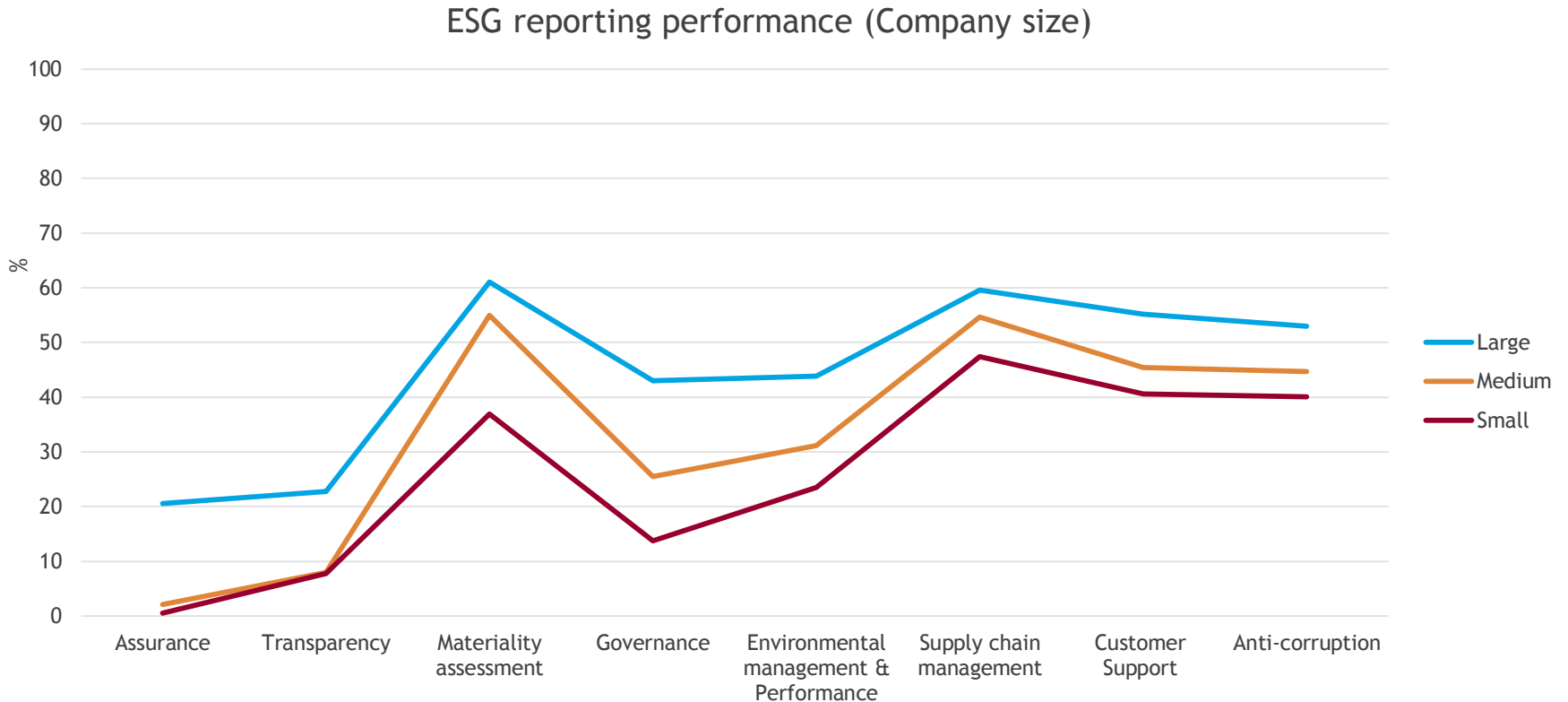
PERFORMANCE - BY SECTOR

- ▶ Based on the BDO ESG Scoring Mechanism, **utilities** (same as 2017 survey result) and tele-communications are better performers, while **materials** (same as 2017 survey result) is lagging behind



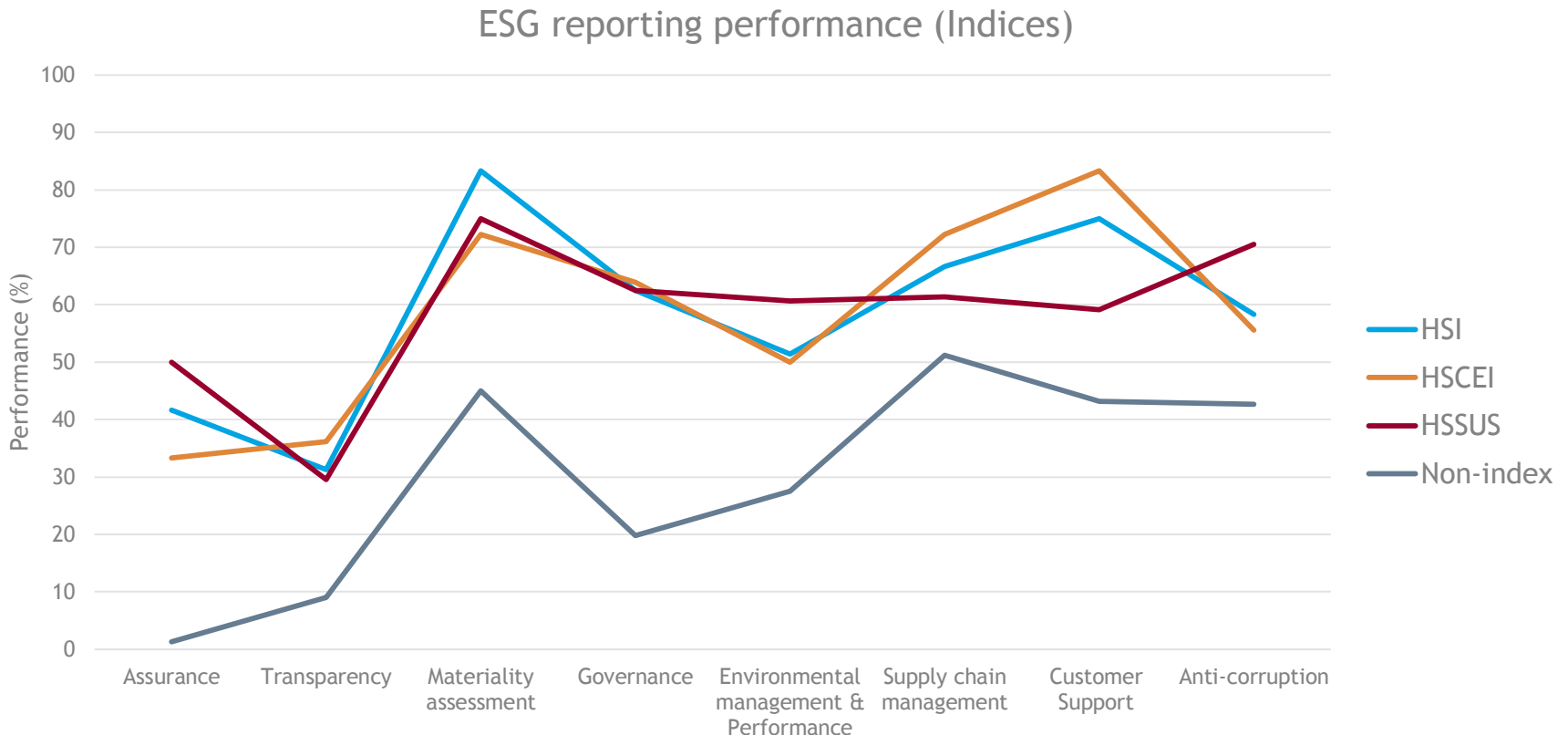
PERFORMANCE - BY SIZE

- ▶ Companies with bigger size are generally performed better than companies with smaller size (similar to 2017 findings)



PERFORMANCE - INDEX VS. NON-INDEX

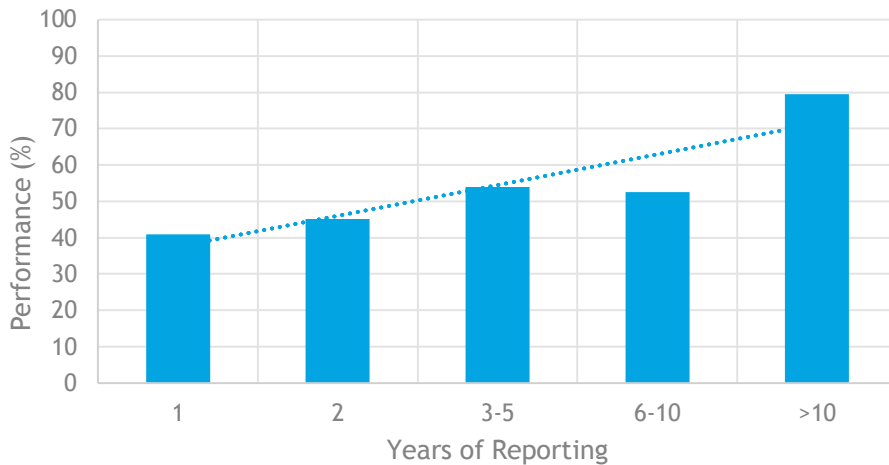
- ▶ HSI, HSCEI, HSSUS constituents generally performed better than those non-index companies surveyed (similar to 2017 findings)



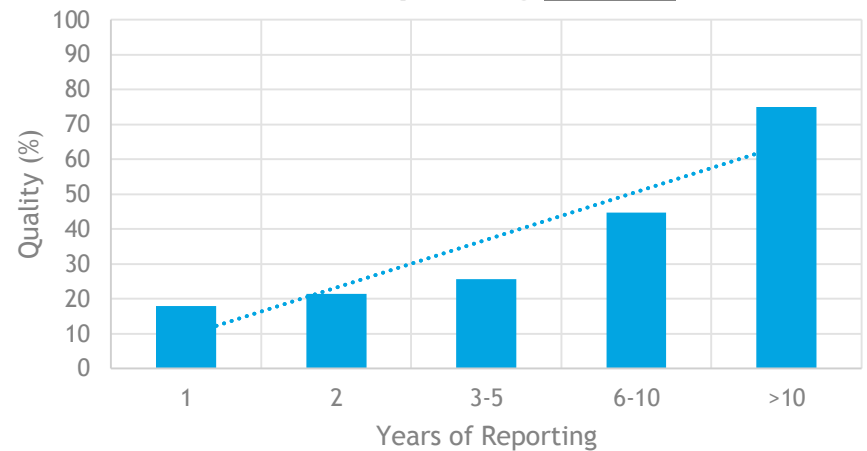
PERFORMANCE - BY YEARS OF EXPERIENCE

- ▶ ESG reporting quality improved along with increasing years of reporting
- ▶ For companies with > six years of ESG reporting experience, over 92% disclosed both environmental and social data (100% in 2017 survey)
- ▶ For companies with > ten years of experience of ESG reporting , all of them disclosed both environmental and social data (also 100% in 2017)

ESG reporting performance

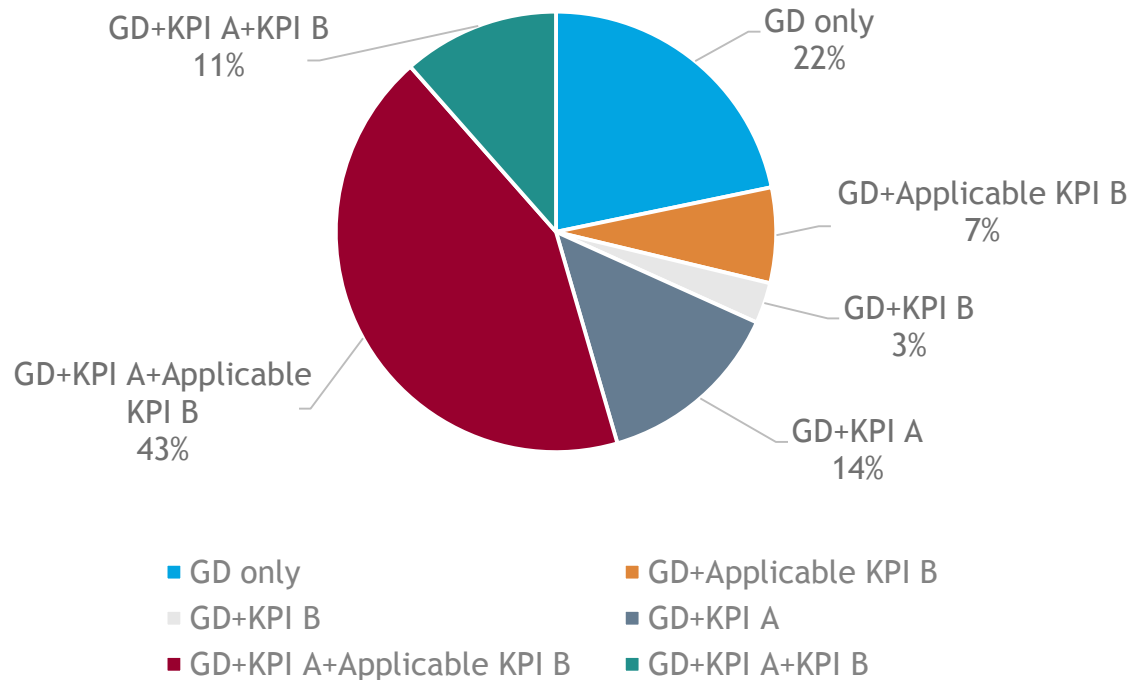


ESG reporting quality



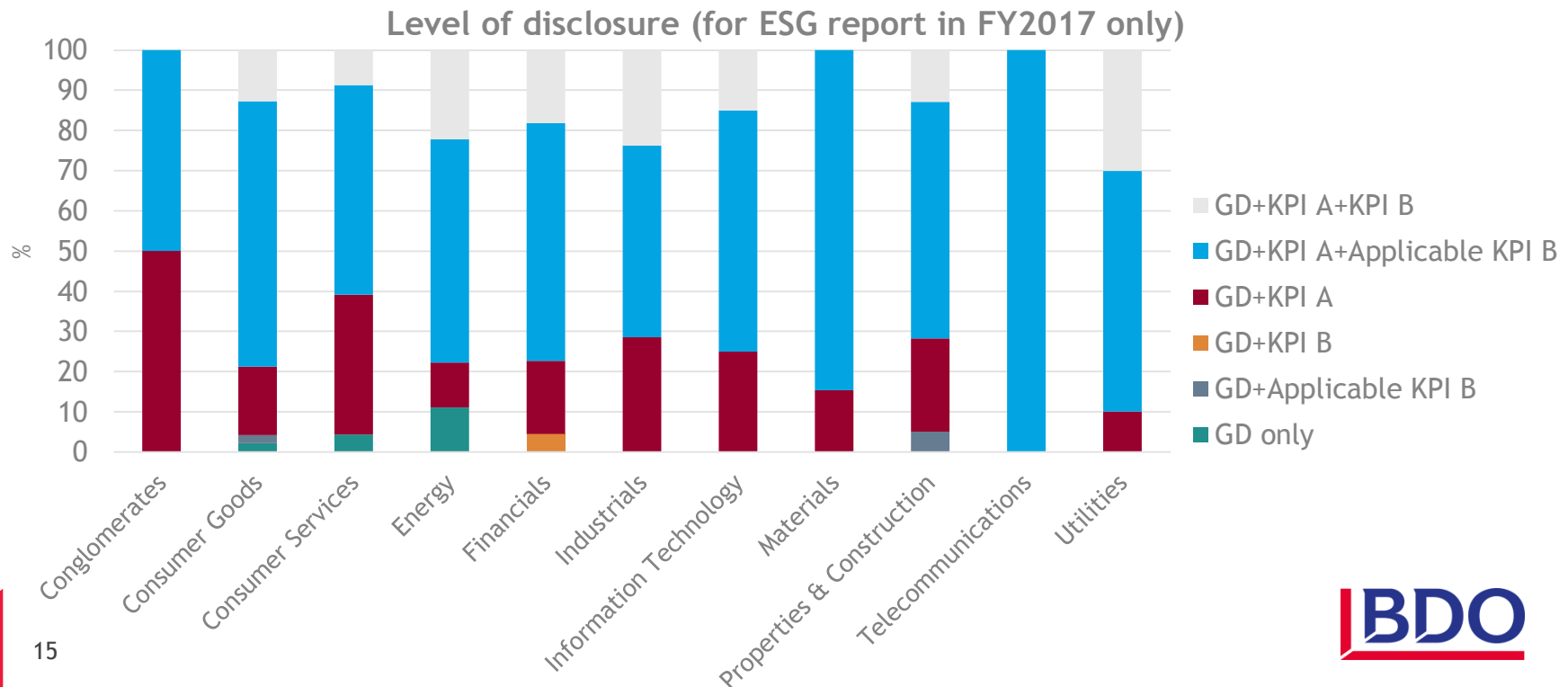
LEVEL OF DISCLOSURE

Survey Area	Key Data Points	2018 Survey	2017 Survey	Increase / Decrease
Level of disclosure	Some KPI A and KPI B	78%	71%	↑
	Full KPI A and KPI B	11%	5%	↑
	Full or some KPI B	64%	64%	=
	Intensity values on KPI A	63%	-	-



DISCLOSURE BY SECTOR

- ▶ Top three performing industries in terms of data disclosure: Energy, Industrials and Utilities (based on the highest% of full disclosure)(Energy, financial and utilities in 2017)
- ▶ Industries lagging behind are conglomerates, materials and telecommunications (based on the lowest % of full disclosure)(consumer goods and information technology in 2017)



ESG GOVERNANCE

Survey Area	Key Data Points	2018 Survey	2017 Survey	Increase/Decrease
ESG governance	Top level commitment and management	26%	-	-
	ESG Committee or personnel	20%	-	-
	ESG strategy	32%	14%	↑
	ESG risk management	15%	-	-

- ▶ Low levels of commitments at director’s level or engagement in ESG management, presence of independent committee or assigned responsible personnel to manage ESG issue, and disclosure in clear risk management approach for ESG risks shown
- ▶ More companies formulated comprehensive ESG strategy but the percentage remains low
- ▶ High correlations found between company size and ESG governance level observed in the above survey areas; the larger the company, the better the performance

ESG REPORTING APPROACH

Survey Area	2018 Survey	2017 Survey	Increase/ Decrease
Stakeholder engagement	63%	40%	↑
Materiality assessment	51%	40%	↑
Report assurance by independent third party	4%	7%	↓
Quantitative environmental KPI goals	8%	15%	↓

- ▶ More companies reported how they engaged stakeholders, among which nearly two-third (one-third in 2017) indicated clear methodology of the stakeholder engagement approach
- ▶ More companies reported materiality assessment were performed, an exercise which allows companies to focus on the issue that matter most and to prioritize ESG issues that are significant, with two-third prioritized materiality issues
- ▶ Very low percentage of ESG reports were verified and assured by third party to increase report credibility; the scope of assurance was mainly on specific data only
- ▶ Fewer companies disclosed quantitative environmental targets such as reduction in emissions, saving of energy and resources, etc.

ESG SYSTEMS

Survey Area	2018 Survey	2017 Survey	Increase / Decrease
Staff career development programme, health and safety training	51%, 77%	-	-
Supply chain assessment	85%	80%	↑
Customer support and services	68%	-	-
Whistle-blowing system	60%	-	-
Independent committee for anti-corruption management	26%	-	-

- ▶ Some improvement in terms of supply chain assessment observed, to 85% from 80% in 2017
- ▶ 51% of companies provided career development programme, 21% provided family friendly approaches, with 77% provided OHS training
- ▶ 68% of companies provided supports to customers, with relatively small percentage (21%) provided capacity building programme
- ▶ Over 60% of companies have reported they have the whistle-blowing system established; 26% of companies have reported the establishment of independent committee for anti-corruption management and case investigation



ESG REPORTING OF GOALS & CHALLENGES

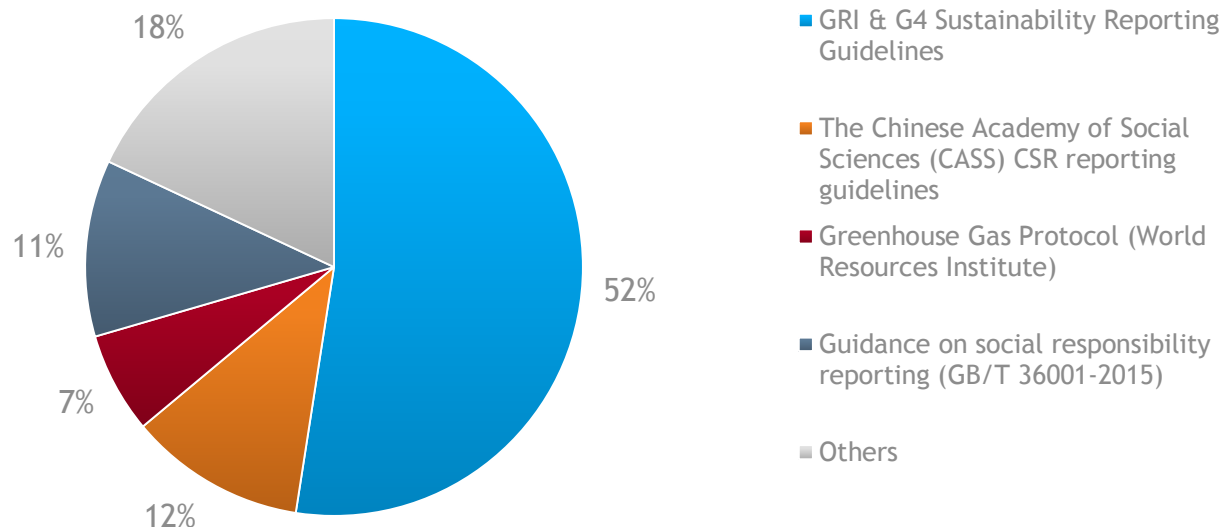
Low percentage of companies surveyed discussed ESG goals, challenges and setbacks in their reports:

- ▶ 17% of companies established goals on ESG management
- ▶ 14% of companies reviewed last year's performance targets and reported the result
- ▶ 14% of companies discussed achievements against ESG goals
- ▶ 1% of companies discussed difficulties encountered in the implementing ESG practices

ADOPTION OF INTERNATIONAL STANDARDS

- ▶ The benefits of adopting international standard include higher consistency, better transparency and information comparability
- ▶ Only 10% of all companies referenced or adopted international standards
- ▶ The larger the company/the more ESG reports issued, the higher percentage in adopting other reporting guidelines or international reporting standards

International standard referenced or adopted (10% of all companies)





OPPORTUNITIES

INVESTMENT VALUE & GLOBAL RECOGNITION PROMOTION

Attracting New Investment Opportunities

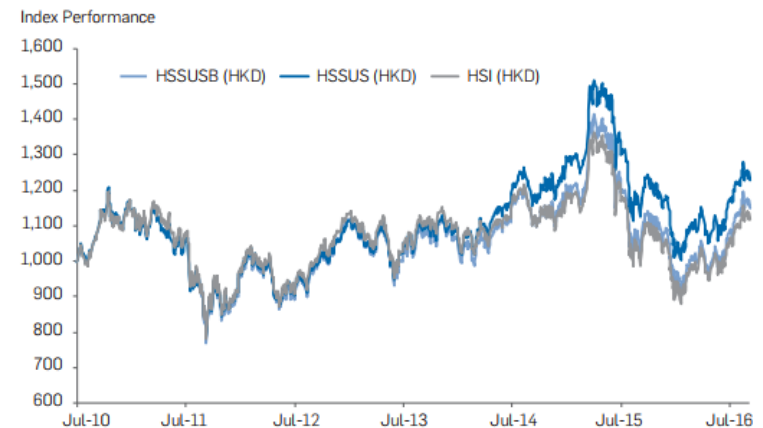
- ▶ According to the survey, the gap is clear: Hong Kong companies are not demonstrating they are good enough in ESG management now and are well prepared in meeting investors expectation in ESG performance. With the growing appetite of investment funds in ESG related investments, the better ESG prepared companies will be in a better positioned to be picked.
- ▶ According to the “Global Sustainable Investment Review 2016” by Global Sustainable Investment Alliance, responsible investment (RI) now represents 26% of all professionally managed assets globally with US\$23 trillion of assets managed under RI strategies. should capitalize on the opportunities this presents through quality ESG reporting.
- ▶ The Hong Kong government is also keen to develop Hong Kong into a green financing hub, as announced in the 2017 Policy Address by the Chief Executive, followed by HKMA’s HK\$100 billion green bond plan in June 2018. Companies should embed ESG into their businesses to mainstream investing and finance, in order to capture the wave of green bond and international recognition.

INVESTMENT VALUE & GLOBAL RECOGNITION PROMOTION

Enhancing Performance & Reputation

Overall, companies with better ESG management are found to have better risk management, better financial performance and credit rating:

- ▶ HSSUS-listed companies, which are highly rated in corporate social responsibility practices, tend to provide a better investment return in the long-term
- ▶ Companies which perform well in ESG not only bring financial benefits but also the opportunities of being admitted into the indexes; leading credit rating agencies such as Moody's Corporation and S&P Global Ratings, have made signatory to take ESG criteria into the company's credit worthiness assessment



Source: Hang Seng Bank. (2016). Hang Seng Corporate Sustainability Index Series - 2016 Results



BDO RECOMMENDATIONS

STEP UP THE GAME

- ▶ A majority of institutional investors in developed markets including Canada, the United States and Europe consider ESG factors; Hong Kong companies should put more efforts in provide “investor grade” ESG reporting if they are to stay competitive in the global market.
- ▶ Whilst there might be an increase in resources in implementing ESG in companies, a lot of studies have confirmed that the benefits always outweigh the costs, and with the trend of increasing ESG regulation, risks and opportunities, the reasons for improving ESG performance have never been clearer.
- ▶ Start by asking the following questions:
 - Is the ESG report containing relevant and information of interests to investors, and is it transparent and trustworthy enough?
 - Have sufficient ESG governance and performance been demonstrated to warrant the investments?
 - How good is your firm in handling ESG risks and how well prepared is your firm for opportunities?



BDO RECOMMENDATIONS - NEXT STEPS FOR BEGINNERS/SMALLER COMPANIES

- ▶ **Set appropriate ESG goals and targets** to drive performance towards an ultimate vision
- ▶ **Review current ESG management policies and strategies** to better position the business to realise the ESG goals and targets
- ▶ **Increase director/senior level involvement**, building a comprehensive and effective ESG governance framework
- ▶ **Identify and engage key stakeholders**, conduct proper identification and analysis of ESG risks and opportunities, and conduct a more thorough materiality assessment



BDO RECOMMENDATIONS - NEXT STEPS FOR COMPANIES WITH WELL-ESTABLISHED ESG REPORTING MECHANISM

- ▶ Adopt international reporting standards
- ▶ Obtain independent assurance
- ▶ Line up reporting approach with international ESG goal-setting and reporting standards such as the UN's sustainable development goals (SDG)
- ▶ Embrace global reporting trends such as **'Impact Reporting'**



WHAT IS IMPACT REPORTING?

Impact Reporting: Directly communicating the achievements and differences made in ESG by the actions taken to increasingly ESG-oriented investors.

For instance:

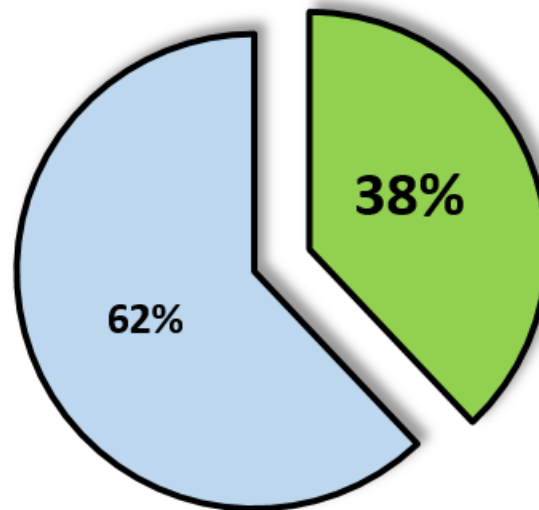
- ▶ How goals in climate change and sustainability are fulfilled and changes achieved
- ▶ How the company has appropriately controlled risks that are relevant
- ▶ Actions taken in seizing the growing opportunities in green finance and green bonds
- ▶ Cost-saving ESG measures in quantifying the positive impact of ESG achievements on company's long-term value
- ▶ How to plan to focus efforts going forward

WHAT IS IMPACT REPORTING?

Impact reporting has been increasingly common in green bonds and ESG reporting. According to Climate Bonds Initiative, of the 191 green bonds, 38% has impact reporting in place.

Impact reporting is in place for 38% of bonds*

- Impact reporting
- No impact reporting



*green bonds within Climate Bonds' green database, issued before 1st April 2016.

Climate Bonds INITIATIVE

BDO

HOW TO EXERCISE ‘IMPACT REPORTING’?

- ▶ Formulate the firm’s key vision
- ▶ Communicate ESG achievements in more interactive and informative ways
- ▶ Increase effectiveness and credibility of the ESG report by identifying compliance gaps, adopting international reporting standards and obtaining independent assessment
- ▶ Develop suitable green finance strategies to capture the wave of climate-linked opportunities



ABOUT BDO IN HONG KONG

ABOUT BDO IN HONG KONG

- ▶ **BDO in Hong Kong** is a firm of **BDO's global organisation**, a global accountancy network with **over 1,500 offices in 162 countries** and over **73,800 people** providing advisory services throughout the world.
- ▶ Founded in **1981**, BDO in Hong Kong combines international expertise with the region's best-available business and advisory services.
- ▶ We have **over 50 directors** and **1,000 staff**, and approximately **200 publicly listed companies** on Hong Kong and various international stock exchanges among our clients.
- ▶ By acting locally while thinking globally, we provide truly customised services to local enterprises and multinational corporations alike, playing a significant role in BDO's operation in Asia Pacific
- ▶ Eligible as the reporting accountants for capital markets of Hong Kong (Main Board/ GEM Board), Canada, Singapore, UK
- ▶ We conform to the highest international standards in a full range of professional services including:
 - Assurance Services
 - Business Services & outsourcing
 - Risk Advisory Services
 - Specialist Advisory Services
 - Tax Services



THANK YOU