



# SURVEY ON ESG REPORTING OF HONG KONG LISTED COMPANIES



# AGENDA

- ▶ Background
- ▶ Survey methodology and population
- ▶ Survey key findings
- ▶ ESG reporting practice analysis
- ▶ BDO recommendations
- ▶ About BDO Hong Kong

# BACKGROUND

- ▶ 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

	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 AND POPULATION

## Methodology and limitation

- ▶ Reviewed publicly available information in ESG reports (either integrated in annual reports or separated as standalone)
- ▶ Research and analysis were based on the published ESG reports only

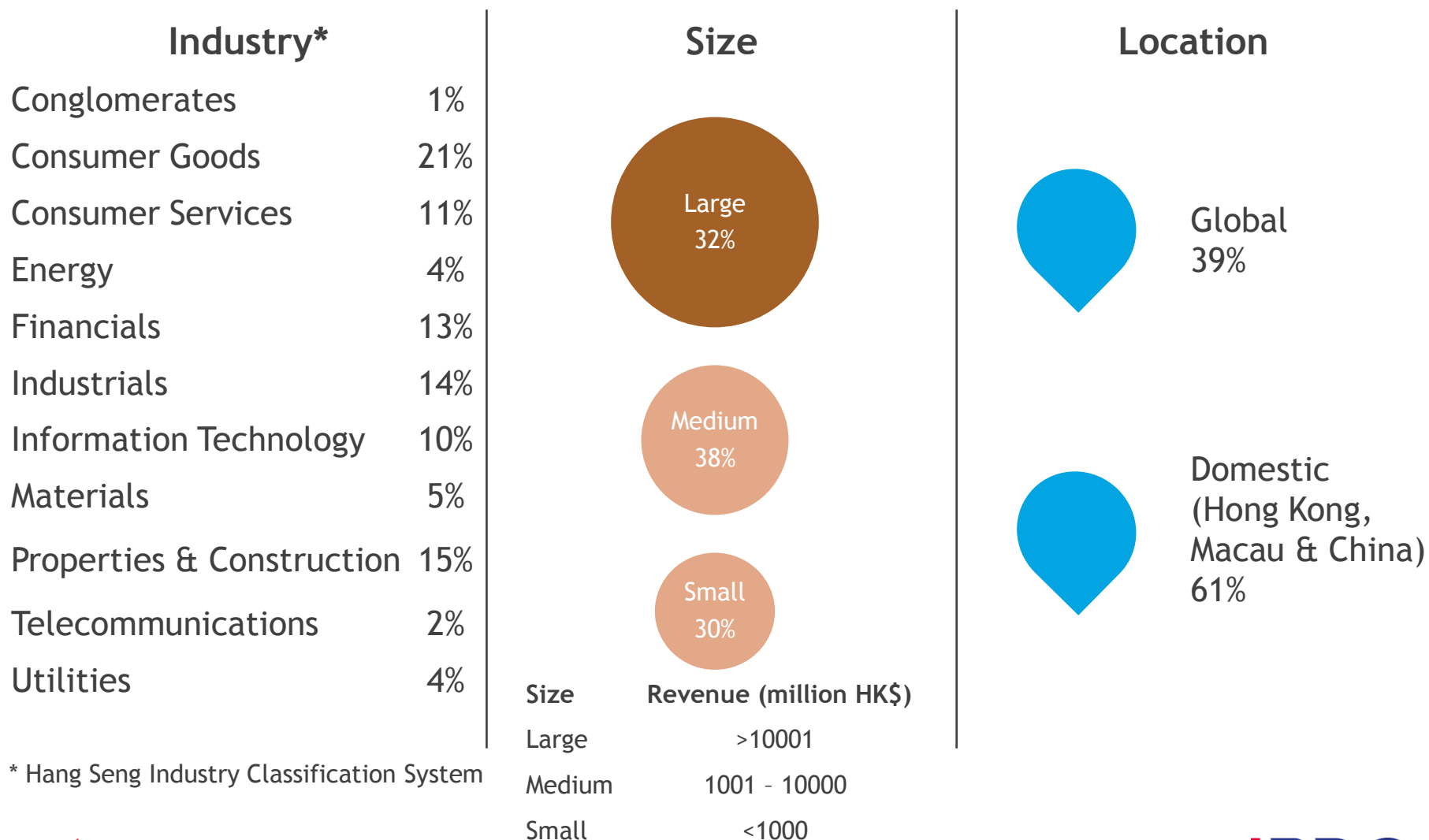
## Population

- ▶ ESG report for the financial year beginning on or after 1 Jan 2016 and published on or before 31 May 2017
- ▶ 300 **Main Board** listed companies
- ▶ Three indices were reviewed:
  - (i) Hang Seng Index (HSI)
  - (ii) Hang Seng China Enterprises Index (HSCEI)
  - (iii) Hang Seng Corporate Sustainability Index (HSSUS)

Index	Percentage
HSI	10%
HSCEI	11%
HSSUS	7%
Non-index	80%

Note: Some companies are listed in more than one index

# SURVEY METHODOLOGY AND POPULATION

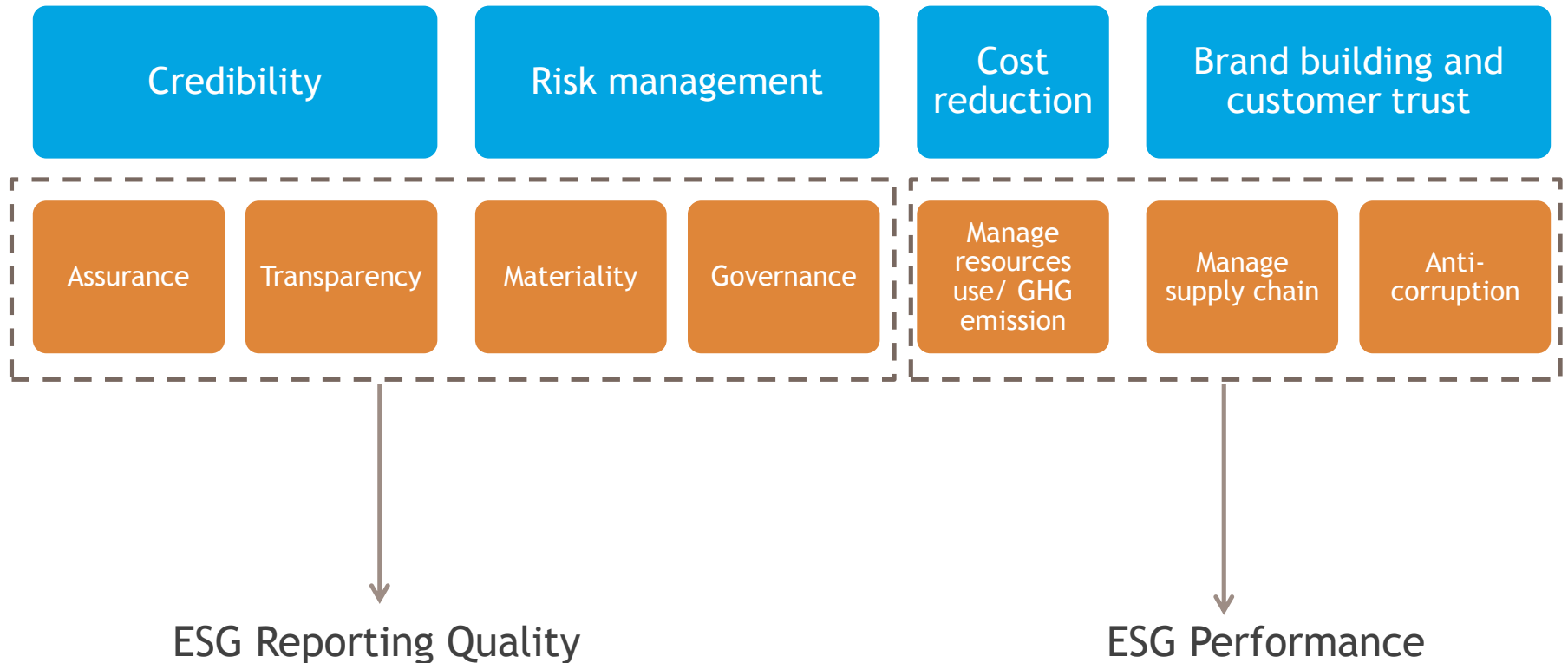


\* Hang Seng Industry Classification System

# SURVEY METHODOLOGY AND POPULATION

- ▶ ESG reports were scored based on the seven core subjects on ESG report quality and performance

## BDO ESG Scoring Mechanism

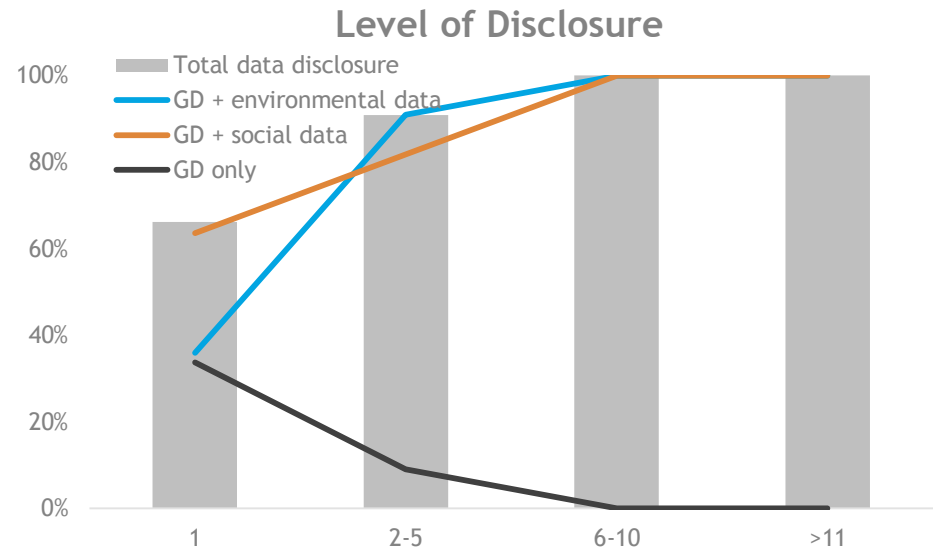
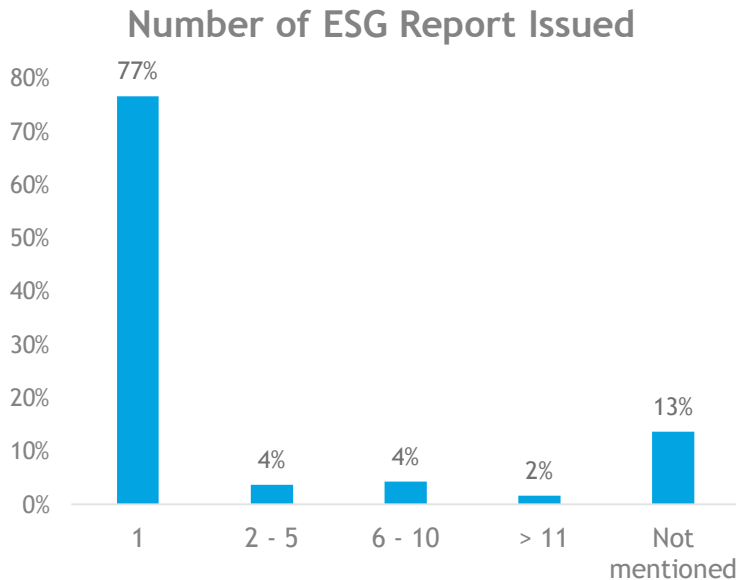




# SURVEY KEY FINDINGS

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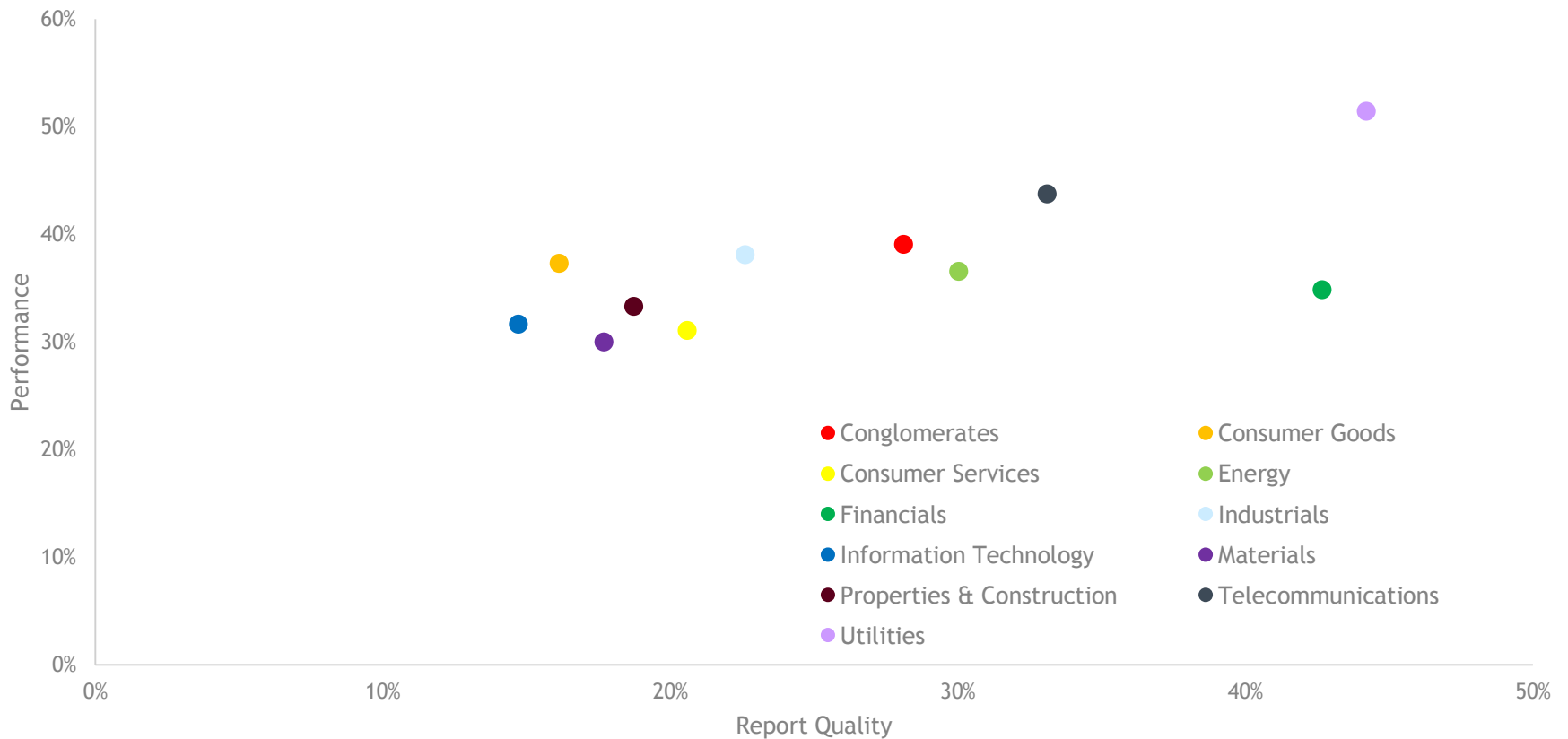
- ▶ Over 75% of the companies disclosed ESG information for the first time
- ▶ For first timers, 35% disclosed GD only and over 60% attempted to disclose some social data
- ▶ For companies with > 6 years of experience, all of them disclosed both environmental and social data





# SURVEY KEY FINDINGS

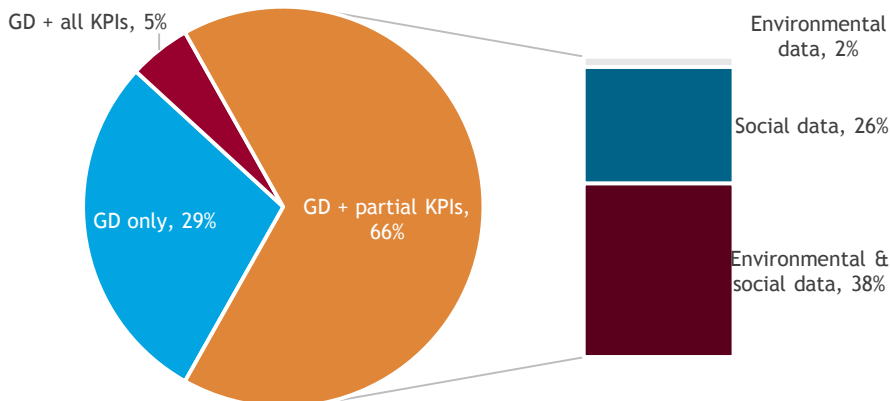
- ▶ Based on the BDO ESG Scoring Mechanism, utilities is the outperformer while materials and information technology are the worst performers



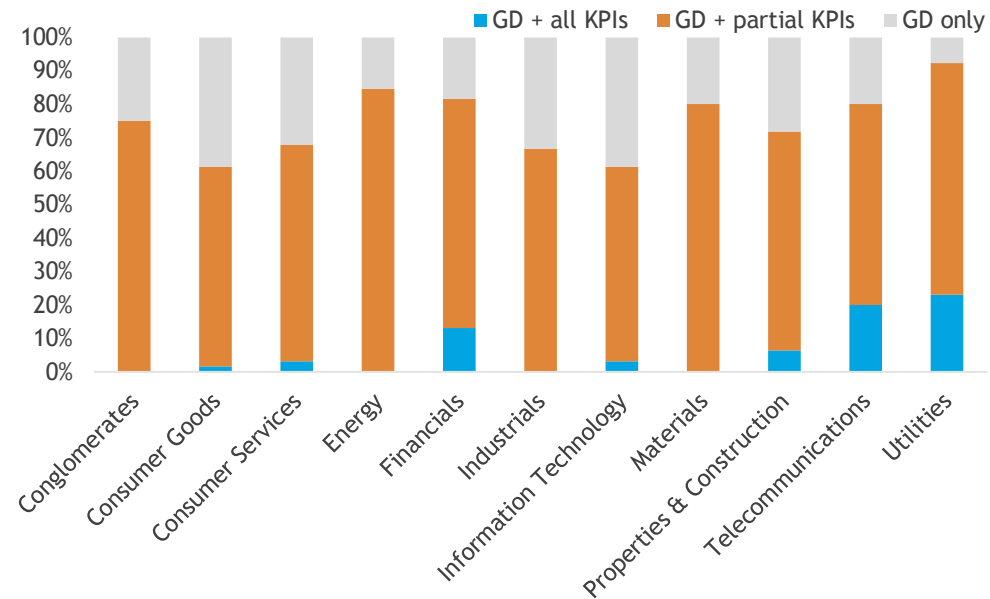
# SURVEY KEY FINDINGS

- ▶ Over 70% of the companies attempted to disclose data
- ▶ Top 3 performing industries in terms of data disclosure: Energy (85%), financial (84%) and utilities (92%)
- ▶ Industries lagging behind are consumer goods (62%) and information technology (61%)

Level of disclosure



Level of disclosure





# ESG REPORTING PRACTICE ANALYSIS

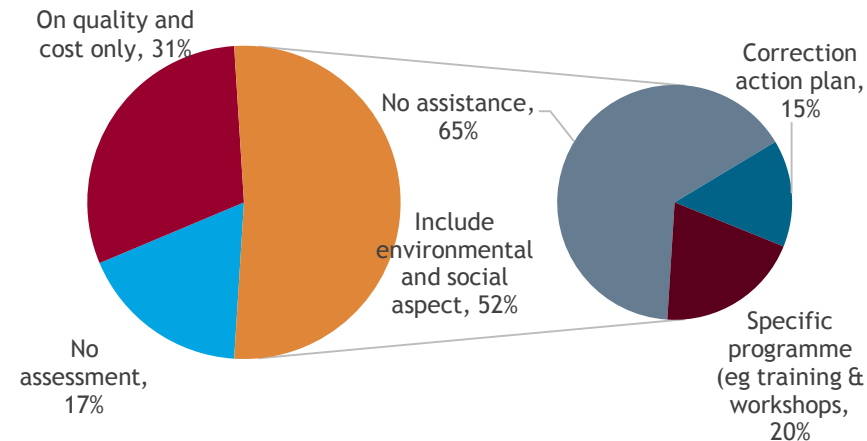
# RISK MANAGEMENT AND INTERNAL CONTROL

- ▶ Managing supply chain and corruption risk help to maintain product sustainability and in turn, build customers' confidence and develop positive reputation of the company

## Supply chain management

- ▶ Over 80% of the companies conduct assessment on suppliers, of which around 60% of the companies assess suppliers on environmental and social issues
- ▶ Building a responsible supply chains is yet to be improved, only less than 10% of companies provided support to enhance suppliers' ESG performance
- ▶ Apart from assessing suppliers' environmental and social performance, companies can provide training and organise workshops for capacity building

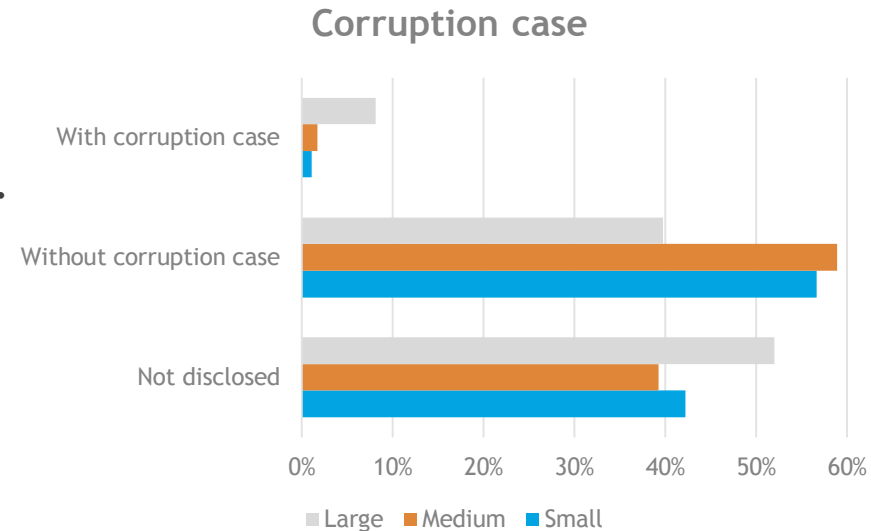
Supply Chain Management



# RISK MANAGEMENT AND INTERNAL CONTROL

## Anti-corruption

- ▶ Around 40% of the companies did not disclose whether they have concluded corruption case within the operating year. Lack of transparency affects stakeholders' confidence to the company.
- ▶ Large companies have more concluded corruption case but at the same time, they are less willing to disclose such information
- ▶ Over 90% of the companies strived to maintain the culture of integrity:
  - Set up dedicated team to supervise corruption matters and carry out inspection
  - Establish guidelines and rules to provide employees with clear guidance
  - Conduct training and organise seminar to raise staff awareness
  - Set up whistle-blowing system

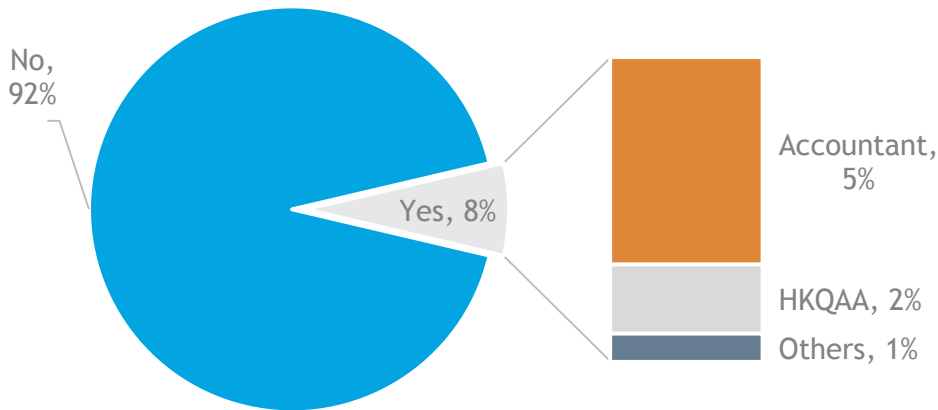


# RISK MANAGEMENT AND INTERNAL CONTROL

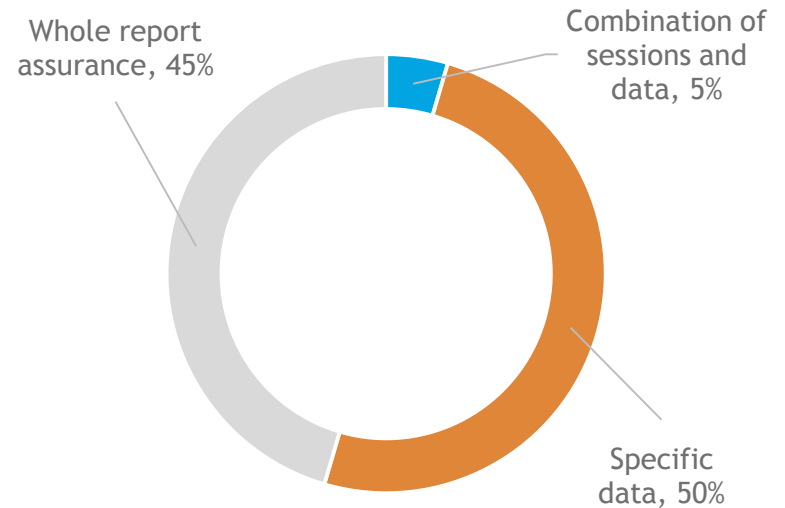
## Assurance

- ▶ Third party assurance provide confidence on the information and data disclosed
- ▶ 7% of the ESG reports are assured
  - Accountant is the major service provider
  - Scope of assurance is either whole report assurance or on specific data

Assurance of ESG Report



Scope of Assurance

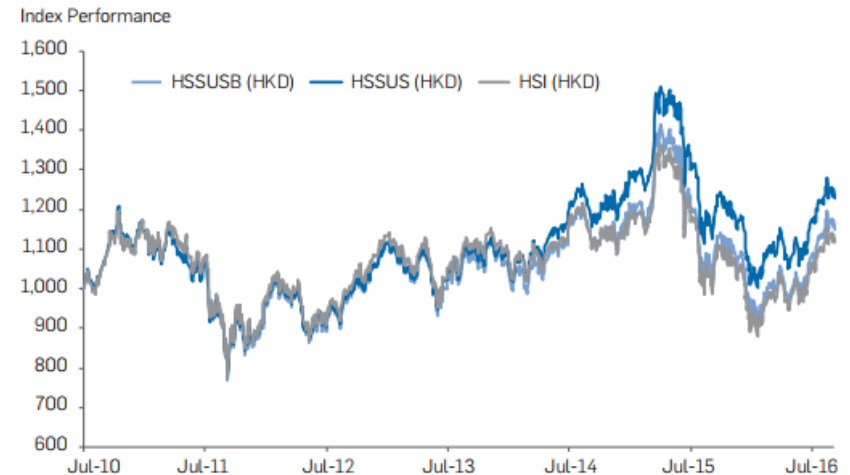


# INVESTMENT VALUE & GLOBAL RECOGNITION PROMOTION

▶ The implementation of the ESG regulation not only promotes the reporting rate and level of disclosure, it serves as a risk management tool and also enhances company value for sustainable long-term growth

▶ Better financial performance

- 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



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

▶ Improve credit rating

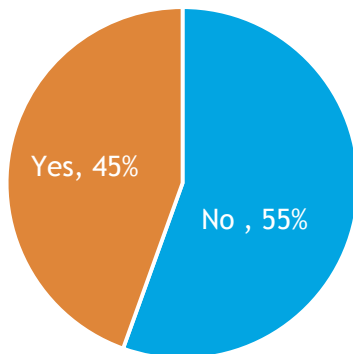
- Leading credit rating agencies such as Moody's Corporation and S&P Global Ratings have made signatory to take ESG criteria into the company's credit worthiness assessment

# INVESTMENT VALUE & GLOBAL RECOGNITION PROMOTION

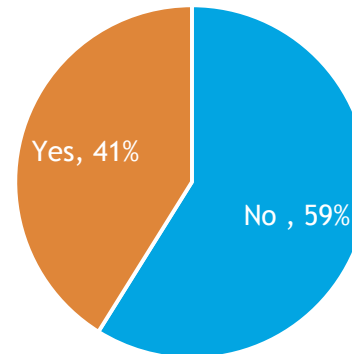
## Transparency

- ▶ Data is a valuable tool for tracking and improving performances. A clear methodology on how to obtain ESG data with a fair and meaningful comparison for performance tracking allows an effective communication with stakeholders
- ▶ Around 70% of the companies attempted to disclose ESG data; however, for those who disclosed data, less than half included assumption made or how they reached the data and provided historical data for performance tracking

Assumption made



Historical data comparison





# INVESTMENT VALUE & GLOBAL RECOGNITION PROMOTION

## Transparency

### ► Social data disclosure (Voluntary)

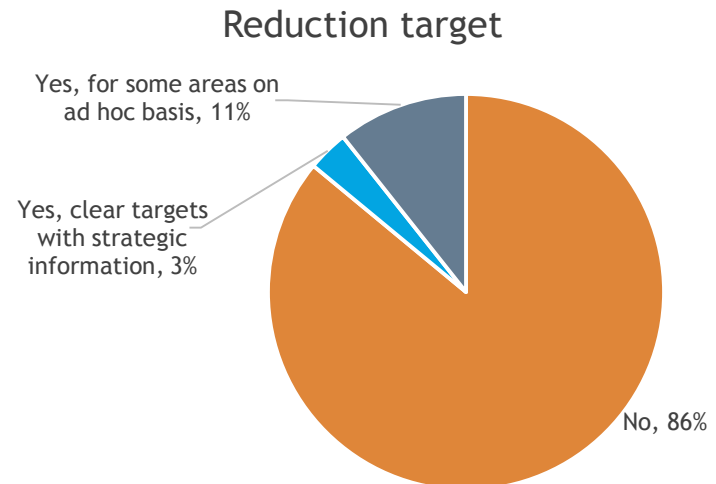
- While over 60% companies disclosed social data, it is selective on what they disclosed
- Common data disclosure includes female portion, corruption case and community investment

Social KPI	Percentage
Female portion	46%
Turnover rate	28%
Occupational health & safety	27%
Training	35%
Corruption case	56%
Product complaint	19%
Community investment	44%

# INVESTMENT VALUE & GLOBAL RECOGNITION PROMOTION

## Resources/ GHG management

- ▶ Over 60% of the companies invested in initiatives to reduce their use of resources and/or GHG emissions, of which only 30% disclosed data on reduction amount/cost saving
  - Companies lack of systematical approach to monitor the status and analyse achievement of the reduction initiatives
- ▶ Investments in reduction initiatives are additional costs but can save cost in long run
- ▶ Only less than 15% of the companies established quantitative reduction target



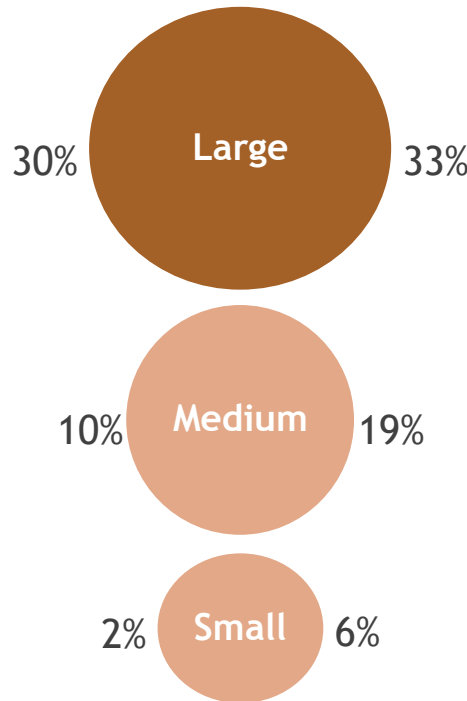
# ESG APPROACH AND PRIORITISATION

## Governance

- ▶ An effective governance practice helps to manage ESG risk
- ▶ Over 80% of the companies do not have comprehensive strategy and ESG committee to manage the ESG issues

### ESG strategy

- Only 14% of the companies formulated comprehensive sustainability strategy
- The larger the company size, the more likely to formulate strategy to manage sustainability issues



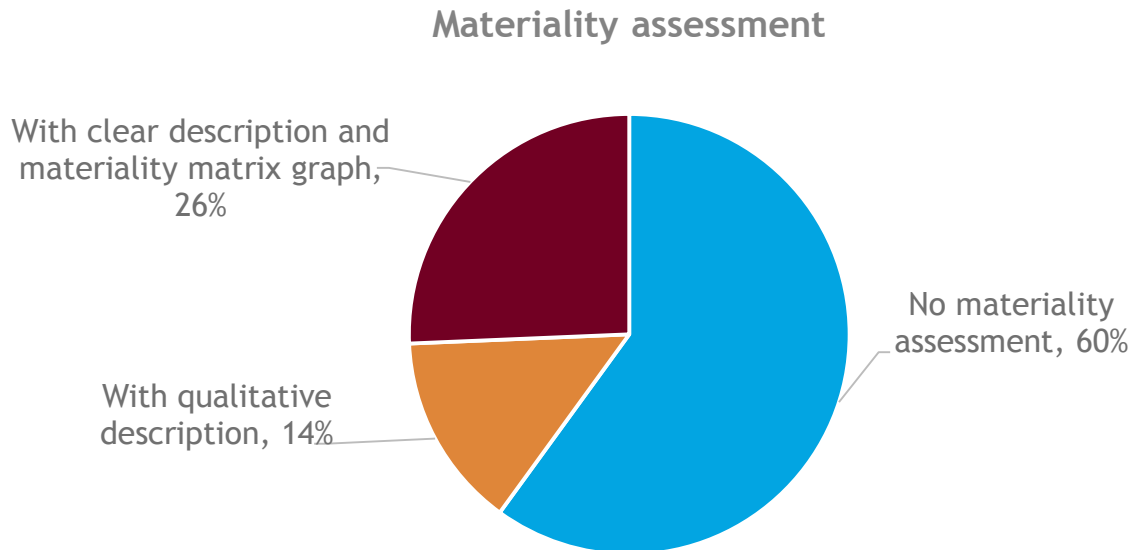
### ESG Committee/ responsible personnel

- The larger the company size, the more likely to have responsible personnel to manage sustainability issues

# ESG APPROACH AND PRIORITISATION

## Materiality

- ▶ ESG Materiality assessment helps to identify, assess and prioritise topics that are most significant to the company and its stakeholders
- ▶ Only 40% of the companies engaged external stakeholders, with less than one-third of them have a formal process in place
- ▶ Only 40% of the companies identified and disclosed the material topics, some companies identified topics solely based on senior management decision





# BDO RECOMMENDATIONS

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- ▶ Companies still have rooms to improve their disclosures of the environmental and social matters. We recommend:
  - Develop a comprehensive ESG governance framework and conduct materiality assessment
  - Increase effectiveness and credibility of the ESG report by identifying compliance gaps and obtaining independent assurance
  - Establish brand integrity and enhance transparency by stating ESG data collection methods and providing meaningful comparative data
  - Start tracking and disclosing environmental data
  - Highlight cost-saving ESG measures to quantify the positive impact of ESG achievements on company's long-term value



# ABOUT BDO HONG KONG

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- ▶ **BDO Limited** is the Hong Kong **member firm of BDO International Limited**, BDO is one of the world's five largest accountancy network with **over 1,400 offices in more than 155 countries** and over **67,700 people** providing advisory services throughout the world.
- ▶ Founded in **1981**, BDO Hong Kong combines international expertise with the region's best-available business and advisory services.
- ▶ We have **50 directors** and **1,100 staff**, and approximately **150 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