Press release

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Subject	BDO Survey: Over 60% HK-listed companies reporting on ESG the first time exceeding minimum disclosure requirements for FY2016	

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Evolving legislation, peer pressure and stakeholder expectation call for more investment in ESG reporting to improve risk management and internal control

Aligning ESG reporting with international standards will boost company investment value

Hong Kong – A majority of Hong Kong-listed companies went beyond meeting the minimum environmental, social and governance ("ESG") disclosure requirement in their first ESG report after the new ESG reporting regulation was introduced, but related investment was still limited and ESG reporting standard has room for improvement, according to a newly released study conducted by the Hong Kong member firm of BDO, the world's fifth largest accountancy network.

First study of its kind reveals who lead and who lag in ESG reporting

The BDO Survey on "**ESG Reporting of Hong Kong Listed Companies**" ("the Survey") reviewed the ESG disclosures made by 300 Hong Kong Stock Exchange Main Board-listed companies for the financial year 2016. It is the first of its kind study conducted after the new ESG disclosure regulation came in force. The ESG reports were studied and scored based on 7 core subjects, namely, assurance, transparency, materiality, governance, resources use/GHG emission management, supply chain management and anti-corruption. Of the 300 companies surveyed:

- **20%** were constituents of the Hang Seng Index, Hang Seng China Enterprises Index and/or the Hang Seng Corporate Sustainability Index, and **80%** were non-index stocks. The percentage breakdown of large, medium and small cap companies in the sample was **32%, 38% and 30%** respectively. Local companies from Hong Kong, Macau and China made up 61% of the total and the remaining **39%** were global enterprises.
- **77%** were first-timers to ESG reporting and over **60%** of them disclosed some social data not compulsory under the general disclosure requirement.
- The **Utilities sector led** with the highest score, whereas the **Materials and Information Technology sectors scored the lowest.**
- **In terms of data disclosure,** the **Energy, Financial and Utilities sectors were leaders** and the **Consumer Goods and Information Technology sectors lagged.**

ESG reporting can be better use to manage risks and for internal control thereby help foster corporate reputation

ESG reporting can be an important tool for tracking and managing external and internal risks, as well as for highlighting corporate governance efforts. For instance, in managing supply chain, by using ESG assessment on suppliers and providing support to enhance suppliers' ESG performance, a company can maintain product sustainability and build customer confidence. And, disclosing concluded corruption cases can increase transparency and help improve stakeholders' confidence in a company. Such efforts can add to the positive reputation of a company. However, while over **80%** of the surveyed companies assessed their suppliers, less than 10% of them provided support to enhance suppliers' ESG performance. In terms of anti-corruption, over **90%** of the companies had related measures and systems in place, but around **40%** of them did not mention whether there were concluded corruption cases in the operating year. Lack of transparency on this front may affect stakeholders' confidence. For ESG reporting to be effective in helping to maximise the benefits from ESG efforts to a company's reputation, customer loyalty and investor goodwill, it must be open and credible. Assurance by a trusted independent third party can increase the reliability and credibility of the report. Yet, currently, only 7% of the surveyed companies sought independent assurance, and only 45% of the assurance was for the entire report, the rest was only for specific sections/ data.

Effective ESG disclosure enhances investment value and global recognition

ESG activities are commonly perceived as a cost burden by businesses, but findings of the Survey suggest otherwise. It pointed out that Hang Seng Corporate Sustainability Index constituent companies, which are highly rated for their ESG practices, tend to provide better investment returns in the long-term, evidencing a positive correlation between ESG achievements and investment return. ESG reporting should serve as an important communication tool by which a company tell investors its ESG achievements and impacts of those achievements on business operations and financial results, and in turn attract investments and brace stock performance.

Furthermore, leading international credit rating agencies and major index providers have also included ESG performance as part of their criteria in rating a company's credit worthiness and index constituent status. These agencies look for data that reflect how well a company manages ESG risks and opportunities brought by major trends, such as climate change, and innate in the company's operations. Examples of key environmental, social and governance data points observed are carbon emission, human capital health and safety, and corruption. However, the Survey revealed that only 30% of the companies surveyed disclosed data on GHG emission reduction amount or cost saving from related initiatives; only 27% disclosed social data on occupational health and safety; and only 56% disclosed corruption cases. As ESG report is a major source for these agencies to gather information on a company's ESG performance, transparency of ESG reports of Hong Kong company needs to improve to match international expectations.

Devise systematic approach and prioritise investment in ESG reporting for short- and long-term financial benefits

Without a systematic ESG approach, companies may not be able to tackle sustainability issues most pressing to their business and industry, meaning a company's ESG activities might not reflect the issues investors and other stakeholders are most concerned about. The Survey found over **80%** of the respondent companies currently do not have comprehensive strategy or an ESG committee or dedicated personnel to deal with ESG matters, and less than half of them engaged external stakeholders and conducted materiality assessment to identify key ESG risks. Some companies determined the material topics based merely on the views of their senior management. There is thus much room for companies to devise more systematic ESG governance practices that can help them identify and prioritise ESG risks and corresponding initiatives. And, related efforts should be clearly stated in the ESG report to show investors and stakeholders the tangible results of ESG measures to short-term cost-saving and long-term sustainable growth of a company.

Ricky Cheng, Director and Head of Risk Advisory of BDO, said, "Over the years, ESG reporting has been growingly a mandatory requirement for enterprises worldwide. It is very clear to us that ESG reporting is a global market concern and we need to act fast in raising ESG reporting level and quality of disclosure of Hong Kong companies to match international standards, if we are to help Hong Kong maintain her reputation as an international financial hub, thereby attract global investors and more companies to come for listing. The Survey we conducted is the first of its kind in the market and some of the results are encouraging and some tell us that companies need to work harder still. We hope our recommendations can help Hong Kong companies, given the limited resources they have, in meeting the evolving legal requirements and increasing peer pressure and stakeholders' expectation for better ESG reporting and ultimately help them boost their investment value and investor confidence".

BDO recommends the following for companies to follow and improve ESG reporting standards:

- **Develop a comprehensive ESG governance framework and conduct materiality assessment:** A good ESG governance framework is an effective tool to help a company manage corporate risks, whereas materiality assessment helps identify, assess and prioritise the ESG risks that are most relevant to the company's business and stakeholders.
- **Increase effectiveness and credibility of the ESG report by identifying compliance gaps and obtaining independent assurance:** Companies should keep an inventory of existing and emerging ESG legislations for identifying and accordingly closing compliance gaps and prepare ESG disclosure using the same discipline as in financial reporting.
- **Establish brand integrity and enhance transparency by stating ESG data collection methods and providing meaningful comparative data:** For the ESG report to be a trustworthy means of communication with stakeholders, it should include any presumptions made, explain how the data are collected and conclusions drawn, and also contain historical data for performance tracking and comparison. This can also win for a company the trust of investors and customers and even help mitigate the negative impacts which malicious market rumours may have on its business.
- **Start tracking and disclosing environmental data:** Environmental data disclosure will become a reporting requirement in 2017. Companies should develop a systematic approach in monitoring and analysing relevant data for meeting future reporting requirements.
- **Highlight cost-saving ESG measures to quantify the positive impact of ESG achievements on company's long-term value:** Companies should give priority to

establishing a systematic approach in monitoring the status and analysing achievement of cost reduction initiatives, such as reduced usage of resources, improved stakeholders' engagements, and communicate them in the ESG report.

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Note to editors

About BDO Limited

BDO Limited in Hong Kong is a member firm of the international BDO network of independent member firms. 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. BDO Limited was established in Hong Kong in 1981 and is committed to facilitating the growth of businesses by advising the people behind them. BDO Limited provides an extensive range of professional services including assurance services, business services & outsourcing, risk advisory services, specialist advisory services and tax services. For more details, visit www.bdo.com.hk.

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