



JUDGES' REPORT 2018



Hong Kong
Environmental, Social and Governance
Reporting
Awards

INTRODUCTION

Globally, the appetite of asset managers for companies with improving performance on environmental, social and governance (ESG) issues has been getting bigger and bigger, triggering increased demand for quality ESG data. Leading indexes provider MSCI, as well as other ESG rating institutions, have been churning out reports on ESG ratings of listed companies. So, in addition to the 'buy', 'sell' or 'hold' signals published by analysts, listed companies and their investor relations experts have one more thing to worry about these days – their ESG ratings.

In Hong Kong, it has been almost three years since the Hong Kong Stock Exchange (HKEX) announced the "Comply or Explain" provisions in December 2015. 2018 is, however, the first year when listed companies are required to disclose their environmental KPIs or explain why they haven't done so. This June, HKEX has also become a Partner of the United Nations (UN) Sustainable Stock Exchanges (SSE) Initiative, committing itself to further promote sustainable and transparent capital markets.

At the same time, UN's Sustainable Development Solutions Network (SDSN) has extended its reach to Hong Kong. The new network, SDSN Hong Kong, co-hosted by The Chinese University of Hong Kong (CUHK) and The Hong Kong Jockey Club Charities Trust was officially launched in January this year, for promoting practical problem solving for sustainable development by mobilizing global scientific and technological expertise from academia, civil society and the private sector.

HKEX reviewed ESG disclosure practices

HKEX has reiterated in its Analysis Report ¹ published in May that under the Listing Rules it is mandatory for companies to adhere to "Comply or Explain" provisions. Failure to report either compliance or explanations for non-compliance of different Aspects amounts to a breach of the Listing Rules. HKEX completed its review of randomly selected 400 issuers' compliance with the ESG Guidelines ² in May 2018.

Globally, the appetite of asset managers for companies with improving performance on ESG issues has been getting bigger and bigger, triggering increased demand for quality ESG data.

In addition, for Aspects where there are no relevant Laws and Regulations that have significant impact on the issuer, the ESG report should state so to avoid breach of the Listing Rules. Where there are Laws and Regulations relevant to the issuer's particular industry segment and which may have a significant impact on the issuer, the issuer should specify the relevant Laws and Regulations and ways in which the issuer has ensured compliance so as to meet the disclosure requirement.

Board involvement is central to ESG

The responsibility of ESG reporting lies on the board. It is difficult to imagine compliance without the board getting involved. In fact, HKEX has continued to push for increasing board involvement. Its Analysis Report says the issuer should state the board's commitment to ESG and the management approach and explain how they relate to its business. All issuers should establish an ESG working group that reports to the board, with clear terms of reference that set out the powers delegated to it by the board.

The issuer should also ensure the board evaluates and determines ESG risks and reports how it ensures that appropriate and effective ESG risk management and internal control systems are in place.

Rising alignment with SDGs

In its third annual survey on ESG reporting in Hong Kong, Alaya Consulting reported that more companies are committed to SDGs and have adopted it as a framework or guide throughout their sustainability reporting. It is encouraging to see a 12% increase in SDG alignment in reports. Most of these companies have identified SDGs relevant to their respective businesses and report on actions related to the goals.

Some companies stated that they pursue all 17 SDGs but only describe how the existing company policies align with the goals. Only a few companies are able to show new initiatives and progress towards achieving the goals.

Note:

1. HKEX Analysis of Environment, Social and Governance Practice Disclosure in 2016/2017
https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Exchanges-Review-of-Issuers-Annual-Disclosure/ESG-Guide/esgreport_2016_2017.pdf?la=en
2. Appendix 27 of Main Board Listing Rules and Appendix 20 of GEM Listing Rules

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SDG alignment in reports.



For investors who are increasingly seeking to make positive impact through their investments, SDG-related insights about a company's environmental and social impact definitely helps make informed decisions.

For details on SDG reporting, please refer to "In Focus: Addressing Investor Needs in Business Reporting on the SDGs"³ issued by GRI and the UN.

HERA winners are the benchmarks

Hong Kong ESG Reporting Awards are bestowed only on companies with the most exemplary performances in Corporate Sustainability.

We are pleased to report that HERA 2018 attracted a total of 51 entries in 2018. The Award winners serve as benchmarks and epitome of sustainable business practices for other organizations, creating a network of professionals committed to accelerating the sustainability agenda in Hong Kong.

Going forward, Alaya Consulting, as the organizer of the HERA, is committed to educating organizations on the rising importance of ESG reporting practices and this benefits business as a whole, while recognising and highlighting best practices at the same time.

3. In Focus: Addressing Investor Needs in Business Reporting on the SDGs
https://www.unglobalcompact.org/docs/publications/Addressing-investor-needs-SDGs-reporting_2018.pdf

AWARD WINNERS

Awards were decided on the basis of the 9 primary criteria of the HERA Judging Criteria (Page 7).

BEST ESG REPORT - LARGE CAP

Grand Award

AAC Technologies Holdings Inc.
ANTA Sports Products Limited
The Bank of East Asia, Limited

Merit Award

Chow Tai Fook Jewellery Group Limited
New World Development Company Limited



BEST ESG REPORT - MID CAP

Grand Award

COSCO SHIPPING Ports Ltd.
Pacific Basin Shipping Limited
Panda Green Energy Group Limited

Merit Award

China Overseas Property Holdings Limited
VTech Holdings Limited



BEST ESG REPORT - SMALL CAP

Grand Award

Health and Happiness (H&H) International Holdings Limited
Pico Far East Holdings Limited
Yip's Chemical Holdings Limited

Merit Award

Baguio Green Group Limited



EXCELLENCE IN GRI REPORTING

Grand Award

AAC Technologies Holdings Inc.
Cathay Pacific Catering Services (H.K.) Ltd.
COSCO SHIPPING Ports Ltd.

Merit Award

Health and Happiness (H&H) International Holdings Limited
VTech Holdings Limited

INNOVATIVE FRONT-RUNNER AWARD

Grand Award

AAC Technologies Holdings Inc.
Esprit Holdings Limited
K. Wah Construction Materials Limited

Merit Award

China Overseas Property Holdings Limited
Chow Tai Fook Jewellery Group Limited

EXCELLENCE IN SUSTAINABILITY REPORT FOR NON-LISTED COMPANY

Grand Award

The Airport Authority Hong Kong
Alliance Construction Materials Limited
K. Wah Construction Materials Limited

Merit Award

Cathay Pacific Catering Services (H.K.) Ltd.
China Overseas Holdings Limited

EXCELLENCE IN ENVIRONMENTAL DISCLOSURE

Grand Award

The Airport Authority Hong Kong
K. Wah Construction Materials Limited
Panda Green Energy Group Limited

Merit Award

VTech Holdings Limited
Yip's Chemical Holdings Limited



PANEL OF JUDGES

THE JUDGES FOR HERA 2018



Mr. Angus HO
Executive Director, Greeners Action



Dr. YARIME Masaru
Associate Professor,
Division of Public Policy,
The Hong Kong University of
Science and Technology



Ms. Jessica TAM
Head of HKCSS-HSBC Social Enterprise
Business Centre, The Hong Kong
Council of Social Service



Mr. Stephen WONG
Deputy Executive Director and
Head of Public Policy Institute Our
Hong Kong Foundation



Ir. Vincent KONG
Sustainability Manager, Sun Hung
Kai Properties

Hong Kong ESG Reporting Awards

Judging Criteria

HERA 2018 focus on the following 9 core criteria which are in line with the HKEX ESG Reporting Guideline and are regarded to be essential elements that better identify organisations that are committed to sustainability.

NO	CRITERIA
1	Strategy
2	Governance
3	Materiality
4	Stakeholder engagement
5	Content
6	Data integrity and quality
7	Performance targeting
8	Communication
9	Transparency

Summary of the Judges' Comments and Recommendations

NO	CRITERIA	OBSERVATION	RECOMMENDATION
1	Stakeholder Engagement	The report issuers should disclose more details of how they conduct stakeholder engagement, which is an essential process for materiality assessment. It seems the issuers have a knowledge gap in both stakeholder engagement and materiality assessment, without which the value of ESG reports would remain diminished.	Unlike financial reporting which answers primarily to shareholders, sustainability reporting needs to answer to a portfolio of stakeholders. Engaging your key stakeholder groups, and more importantly, responding to their concerns throughout the reporting journey are crux of sustainability reporting.
2	Materiality	The majority of the companies has made ambiguous disclosures, implying companies may not have fully grasped the essence of materiality.	Materiality is central to sustainability reporting. Companies committing to improvement must describe the process of determining materiality. Also, ongoing stakeholder engagement should be taken into account for assessing materiality. These details enable stakeholders to make sense of how the material aspects are identified and whether they are relevant and significant to the business.
3	Board Involvement	There is insufficient disclosure about ESG Working Group and the relevant structure set up to report to the board, with clear terms of reference and delegated powers.	Sustainability governance shows the impetus and readiness of the company, from leadership commitment to implementation on the ground. Board involvement in sustainability governance is critical for ESG risk management as well as value creation.
4	Target Setting	Only a handful of companies have reported clear performance targets in their reports.	Target setting is key for improvement and how a company creates value from sustainability reporting. Quantitative and time-bound target-setting demonstrates the company's commitment to strive for better environmental performance.
5	GRI	Reports aligning with GRI standards are generally better.	GRI has set out more clear and stringent disclosure requirements. Adopting GRI framework will invariably prepare companies for taking actions and ensuring higher transparency. For GRI reports, issuers are recommended to consult the relevant GRI Sector Disclosures if available, including but not limited to Airport Operators, Construction and Real Estate, Food Processing, Media, Oil and Gas, etc.

NO	CRITERIA	OBSERVATION	RECOMMENDATION
6	SDGs	Some companies are trying to make explicit linkages between their ESG initiatives and SDGs.	Going forward, the companies should gradually tackle sustainability issues through their core business activities from long-term strategic perspectives. By doing so, it would be possible to explore opportunities for achieving both objectives of competitive advantage and sustainability at the societal level in the long run.
7	Compliance	The reports lack adequate disclosure on specific relevant laws and regulations, particularly Emissions, Health and Safety and Product Responsibility.	HKEX stated in its May Analysis Report that simple statements on policies are “uninformative” and “not helpful to stakeholders”, and companies should specify “ways in which the issuer has ensured compliance”.
8	Communications	Most winners have taken an interactive approach with well-designed info-graphics.	Pictures and infographics make it easy for stakeholders to consume the narratives and the data, thus adding value to the reports.

Conclusion

It has been almost three years since the Hong Kong Stock Exchanges announced the “Comply or Explain” provisions in December 2015. Overall, the judges were impressed with the commitment demonstrated by companies participating in the awards, in particular, in addressing ESG challenges in community and communicating them.

Companies strived to adopt HKEX’s ESG Reporting Guideline as well as standards outlined in Global Reporting Initiatives. The judges were pleased to see reporting organisations endeavouring to consider adoption of UN Sustainable Development Goals in setting their sustainability objectives.

Despite progresses in reporting standards and the report content, there is room for further enhancement of ESG reporting in Hong Kong. The judges encouraged all companies to disclose more details of how they conduct stakeholder engagement, which is an essential process for materiality assessment. Another key recommendation is to involve the Board in sustainability governance which is critical for ESG risk management as well as value creation. Only by practising this, more organisations would be able to tie their sustainability initiatives with their core businesses.

Finally, the judges concluded that the winning organisations have demonstrated more of the characteristics that mark sustainable enterprises of the future in Hong Kong. They expect more reporting organisations to emphasise these characteristics to be prevalent in the coming year and this should further enhance the standard and quality of ESG reporting in Hong Kong.

About Alaya Consulting

Alaya Consulting specialises in ESG consultancy focusing on ESG reporting, pre-assurance and executive training.

Since 2014, we are in partnership with large and emerging companies to foster long term growth and maximise impact, including raising ESG ratings.

Alaya, in Buddhism, means primary, or the eighth consciousness which forms the seeds of future karma.

Our vision is similar. We aim to become the leading facilitator of corporate sustainability, planting the seeds of sustainability that can grow into trees for our future generations.

Our clients represent a variety of sectors including energy, medical devices, biotechnology, chemical industry, finance and consumer products, etc.

We work with companies that have global operations spread over several continents, as well as smaller companies with operations at a single facility.

With our international experience, we tailor our consulting services to meet the needs of geographically well spread out clients, irrespective of where they operate.

Overall, the judges were impressed with the commitment demonstrated by companies participating in the awards.

Another key recommendation is to involve the Board in sustainability governance which is critical for ESG risk management as well as value creation.

Contact us

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Hong Kong ESG Reporting Awards Organiser

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