ESG NEW ERA: CORPORATE INSIGHTS AND FACTS IN CHINA MARKET

A Research on Corporate Environmental, Social and Governance (ESG) Issues

By HKGFA and CECEPEC

2019

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Message from Dr Ma Jun

Our planet is endangered by mounting environmental challenges including accelerating global warming. It is now a global consensus that sustainability and ESG factors must be integrated into corporate governance. As the largest developing country, China has identified pollution prevention and control as one of its "Three Tough Battles", incorporated green development into its development philosophy, and placed green finance on the top of its financial development agenda.

China's green finance industry has grown rapidly, leading the world in areas such as incentive measures, local pilot projects, green bonds, green industrial funds, environmental stress tests, as well as green assessment and certification. However, participation by corporations and market investors lags behind. One main reason is the lack of ESG disclosure and the misconception that a company's ESG performance doesn't correlate with its financial performance. In reality, studies have shown that in general, a company's financial performance — in terms of the probability of loan defaults and its share price performance — has a positive correlation with its ESG performance. For example, from 2013 to 2017, twenty-one major banks in China reported that their green loans' NPL (non-performing loan) ratio averaged merely 0.37%, substantially lower than the 1.69% ratio of these banks' entire loan portfolio. From the fund industry's perspective, several studies around the world have shown higher long-term returns on ESG indices compared with general market equity indices. As such, a growing number of asset-management firms are incorporating non-financial metrics, or ESG metrics, as part of their due diligence processes on companies.

The key approach for companies to disclose ESG information is through the publication of ESG reports, sustainability reports or corporate social responsibility (CSR) reports. These reports provide stakeholders, including investors, with information on companies' performance in social, environmental, economic and governance. They showcase their corporate values, governance models and serve as the link between their corporate strategies and the ways toward regional and global sustainable development.

I believe that enhancing the transparency of corporate ESG governance and ESG information disclosure can contribute significantly to the further development of green finance. The use of effective ESG analytical methods and models based on corporate ESG-related information and material will also help banks and investors identify potential negative environmental and social impact on their portfolios and encourage financiers to allocate more resources to green investment.

Against this backdrop, the Hong Kong Green Finance Association (HKGFA) and CECEP Environmental Consulting Group Limited (CECEPEC) (hereinafter referred to as "we") jointly initiated this stock-taking study based on a survey of 50 listed companies in the China market, a review of governance information from ESG disclosures by the 50 Hang Seng Index (HSI) Constituents , and an analysis on the latest ESG reports of 374 companies listed in Hong Kong.

We believe that this study will help market participants and regulators understand the status quo of companies' ESG disclosure and identify the barriers to further improvement in disclosure. Further work based on this study will be needed to develop more concrete options for enhancing ESG disclosure among listed companies and the corporate world in general.

Ma Jun

Dr. Ma Jun
Chairman of Green Finance Committee, China Society for Finance & Banking
Chairman and President of HKGFA

Foreword

In response to today's severe economic, social, and governance challenges, 193 Member States of the United Nations unanimously adopted the *2030 Agenda for Sustainable Development* and its 17 Sustainable Development Goals in 2015, defining the global vision and priorities for sustainable development in 2030, and mobilising forces from governments, businesses and civil society to achieve these common goals.

For companies, as investors are becoming increasingly aware that corporate financial statements alone may not necessarily suffice in helping them to understand companies' access to capital, cost of capital, potential risks and the ways in which these risks are managed[1], an increasing number of investors and rating agencies are now taking actions to demand companies to integrate ESG into corporate governance and business operations. Meanwhile, regulators such as stock exchanges have also played a key role in enhancing market confidence and promoting ESG governance and disclosure. Listed companies are becoming more and more familiar with disclosing their ESG governance and related performance through ESG reporting.

With the accumulation of ESG integration experiences by investors, the enhancement of ESG regulatory requirements, and the extensive practice of corporate ESG reporting, listed companies are embracing various opportunities and challenges in the process of sustainable development at different stages. This report aims to help to achieve consensus among regulators, investors, and companies, to establish a solid foundation for better communication, and ultimately to better reflect companies' needs to the market and regulators, thereby further promoting green finance development in the region and facilitating ESG policy upgrading.

We hope that the findings and suggestions in this report will offer you good insights into the formulation and planning of ESG strategies, and provide you a comprehensive understanding on ESG issues of listed companies in the China Market.

HKGFA and CECEPEC

[1] How to prepare and ESG report?, HKEX, November 2018, https://www.HKEX.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Listed-Issuers/Environmental-Social-and-Governance/How-to-Prepare-an-ESG-Report/steps_c.pdf?la=zh-HK

Executive Summary

In addition to disclosure of traditional financial information, it has become an irresistible global trend for companies to disclose non-financial information, including ESG or CSR (corporate social responsibility) information, as a response to the needs of various stakeholders[2]. We have been continously paying close attention to companies' performance and development in ESG issues. To gain a deeper understanding of companies' current views on ESG issues, the challenges they face and their future plans, we have conducted a questionnaire survey and interviewed management personnel of 50 listed companies in the China Market[3] between August and September 2019. Concurrently, to understand companies' current ESG management practices and ESG disclosures, we reviewed the governance information from ESG disclosures by the 50 Hang Seng Index (HSI) constituents[4], and conducted an analysis on the latest ESG reports of 374 companies listed in Hong Kong[5].

The results of our survey and interviews reveal that over half of the companies' management gave a positive evaluation of ESG's functions in their companies. ESG factors can affect intangible assets of an enterprise, such as reputation and relationships with key stakeholders, and therefore affect valuation and performance of companies[6]. At the same time, some of the management personnel believe that overall ESG performance will have no impact on corporate positioning within an industry, and there is no significant correlation between ESG and corporate competitiveness. This is likely attributed to the fact that ESG performances are often difficult to be monetised. Compared with the financial income and expenditure, investment and return of ESG are difficult to be quantified. Effectively integrating ESG into corporate governance present a challenge to most companies.

The Insights
Survey and Interview

01 70% of respondents believed that companies that attach importance to ESG should have greater comparative advantages and are more competitive in the marketplace as compared with their peers.

02 62% of respondents expressed that climate change has an impact on their daily operations; among which more than half believed that they had already been negatively affected by climate change at present.

03 More than 90% of respondents expressed that they had already incorporated ESG into their corporate governance or considered to do so over the next three years. However, more than 60% of respondents believed that the lack of expertise or experience in tackling with ESG issues could be a major obstacle for companies to incorporating ESG into their corporate governance.

04 The use of resources, the conservation of nature and environmental protection, environmental and social risk management in supply chain and product or service quality are ESG topics considered to have a substantial impact on corporate development at present, and in the medium and long term. With the changes in environment and society, greenhouse gas emissions and climate change adaption (46% at present; 50% in the medium and long term), as well as informatisation and artificial intelligence (20% at present; 34% in the medium and long term) increased by 4% and 14% respectively, and are considered to have increasing impacts on companies in the medium and long term.

05 Continuous tracking and improving performance on ESG topics, setting relevant management objectives, and reviewing their progress regularly, have been considered as the main strategies for companies to integrate ESG into their corporate governance at present and in the next 10 years (82%), and as the major direction of ESG investment for companies over the next 3 years (74%).

The Facts
Review of Disclosed Information

01 88% of HSI constituents have disclosed information about their responsible units (committees or working groups/departments, etc.) within the companies for ESG issues, while 12% of HSI constituents have not disclosed any relevant information.

02 89% of the Hong Kong listed companies[7] are found to have disclosed their information in line with the "comply or explain" provisions of the current *ESG Reporting Guide*; regarding the "comply or explain" provisions of the proposed amendments to the *ESG Reporting Guide* issued in May 2019 (the "*Proposed Amendments*"), the percentage of companies disclosed such information is roughly the same as those did not, with some companies showing they are already well-prepared to respond to requirements of the *Proposed Amendments*.

[2] Discussion on the Capital Market Sustainability Initiative and the Promotion of ESG Information Disclosure, Taiwan Stock Exchange, February 2018, https://www.twse.com.tw/ch/products/publication/download/0001066317.pdf

[3] The companies analysed in this report are listed in Mainland China or Hong Kong, China. The companies listed in Taiwan have not been included in the scope of this report. We may further analyse the listed companies in Taiwan in the future.

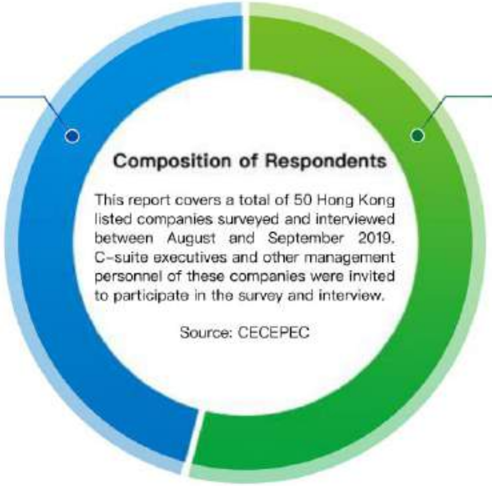
[4] As of July 2, 2019, we selected all the current 50 Hang Seng Index constituent companies for analysis. For a list of Hang Seng Index constituent companies, please refer to: https://www.hsi.com.hk/eng/indexes/all-indexes/hsi

[5] The 374 companies include constituents of the HSI, the Hang Seng China-Affiliated Corporations Index and the Hang Seng China Enterprises Index as of 2 July 2019, and some listed companies in Mainland China (A and H shares). 5 of these companies were not included in the scope of the ESG information disclosure analysis since their ESG reports were not found due to suspensions, their ESG reports had yet to be published or other reasons.

[6] ESG Integration in Asia Pacific: Markets, Practices, and Data, CFA Institute and UN PRI, May 2019, Https://www.unpri.org/download?ac=6459

[7] Same as footnote 5, referring to the 374 Hong Kong listed companies reviewed.

About the Research: Survey and Interview



46% C-suite

- Board Member
- Chief Risk Officer/ Head of Risk Management
- Chief Sustainability Officer/ Head of Sustainability
- Chief Compliance Officer/ Head of Compliance
- Chief Investor Relations Officer/ Head of Investor Relations

Composition of Respondents

This report covers a total of 50 Hong Kong listed companies surveyed and interviewed between August and September 2019. C-suite executives and other management personnel of these companies were invited to participate in the survey and interview.

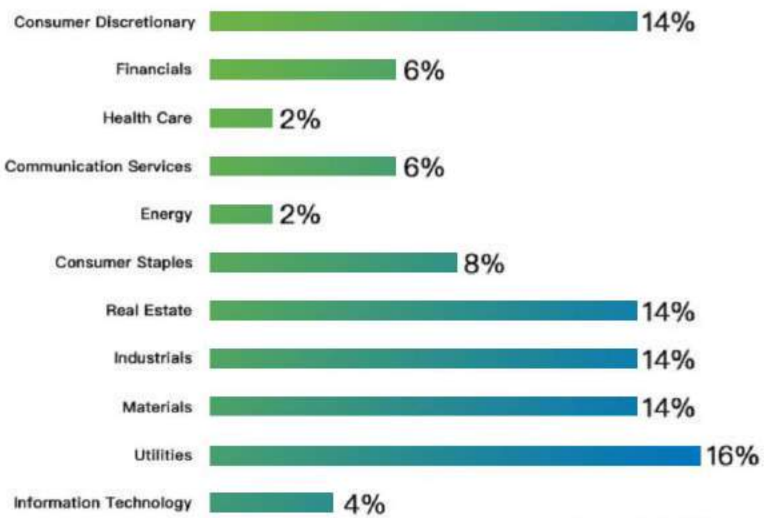
Source: CECEPEC

54% Other Management

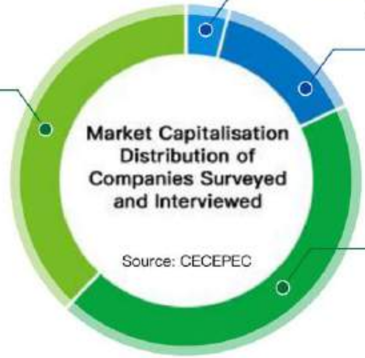
- Board Secretary/ Company Secretary
- Investor Relations Manager
- Asset Management Manager
- Senior ESG Manager
- Manager of the Department of Securities
- Environmental, Health & Safety Manager

Companies that were surveyed and interviewed are from eleven sectors based on the Global Industry Classification Standard (GICS). The market capitalisation distribution of companies comprises of four levels, ranging from "below HKD 10 billion" to "over HKD 1,000 billion". More than 80% of the companies have their major revenue source by geographical region from Mainland China, and the rest have theirs from Hong Kong, China and overseas. In addition, nearly 70% of the surveyed and interviewed companies in the research are central state-owned enterprises (central SOEs) and SOEs.

Sectoral Distribution of Companies Surveyed and Interviewed



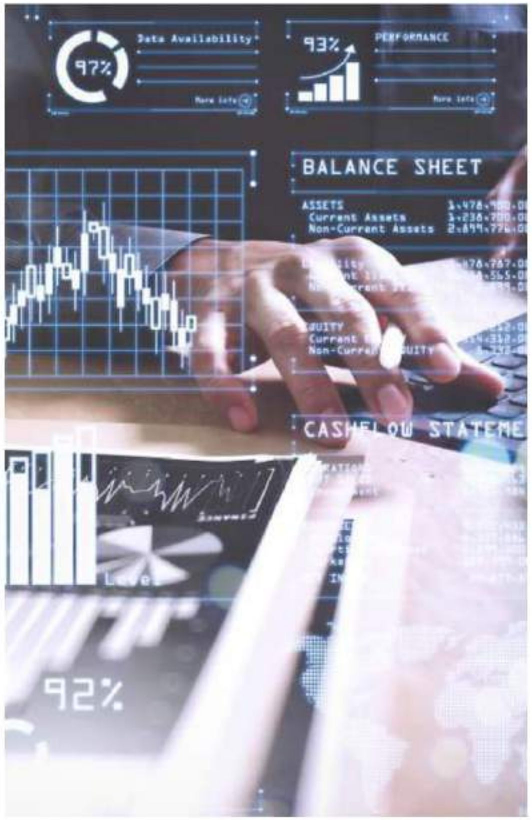
Source: CECEPEC



About the Research: Review of Disclosed Information

To understand companies' current performance regarding their ESG governance and disclosure of ESG information, we have reviewed the governance information from ESG disclosures by all of the current 50 HSI constituents, and have analysed the latest ESG disclosures of a total of 374 companies listed in Hong Kong.

Furthermore, we held an online seminar regarding the *Proposed Amendments* of the *ESG Reporting Guide* and the *Listing Rules* in May 2019, with a total of 98 Hong Kong listed companies participated in the seminar. We have collected and analysed the participating companies' views on the *Proposed Amendments*. For more information, please refer to the "II The Facts" section of this report.



Current status of HSI constituents on ESG governance disclosures

The review of governance information from ESG disclosures focuses on HSI constituents' ESG governance structure, their ESG-related roles and duties, and ESG governance practices through examination of annual reports, ESG reports, company websites, terms of reference (ToR) documents, and other publicly available information.

Aspects of ESG Governance Disclosure	Description
ESG governance structure	Refers to whether a company discloses the establishment of responsible units for ESG in its corporate governance structure, such as committees, working groups and departments, and, where applicable, the position of the head of the responsible units.
Duties of the responsible unit for ESG	Refers to whether a company discloses the specific governance duties of the responsible units for ESG: • Identification of ESG topics • Management of ESG topics • Setting targets for ESG topics
ESG governance practices	Refers to whether a company discloses the implementation of a specific ESG governance practice, for example, whether the compensation/bonus of Board members/C-suite executives are tied in with the current ESG performance of the company, etc.

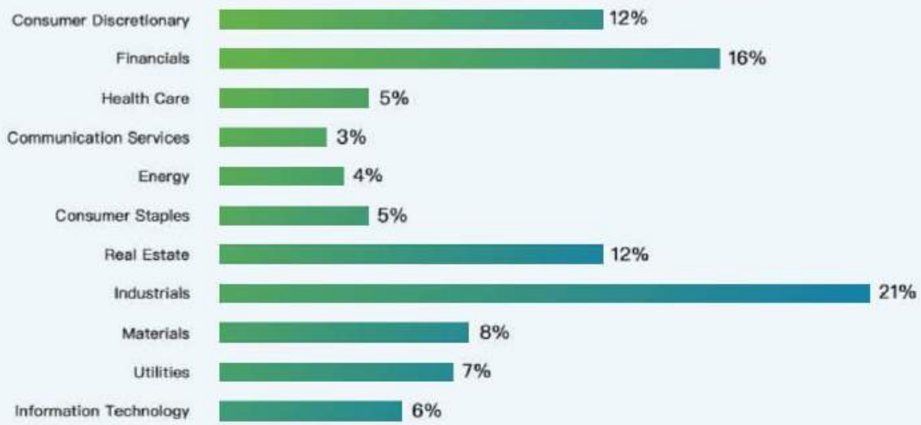
Overall status of ESG information disclosures of listed companies in Hong Kong

The review of ESG information disclosure in this report was based on the requirements of The Stock Exchange of Hong Kong (the "SEHK") 's current *ESG Reporting Guide* and the *Proposed Amendments*. We analysed companies' latest ESG reports, sustainability reports or CSR reports to keep track of their ESG disclosure as well as to understand their readiness for the *Proposed Amendments*.

The review of ESG information disclosure examined the 2018 ESG reports, sustainability reports or CSR reports (published on or before 31 August 2019) of a total of 374 companies listed in Hong Kong. ESG information on the environmental and social subject areas of the "comply or explain" provisions of the current *ESG Reporting Guide* and the *Proposed Amendments* was collected and analysed based on the disclosure requirements of these two guides. The ESG information disclosure was categorised under the following two situations:

ESG Information Disclosure Situation	Description
Contained relevant disclosures	Disclosed relevant information required by the "comply or explain" provisions in the current *ESG Reporting Guide* and the *Proposed Amendments*
Did not contain relevant disclosures	Did not disclose relevant information required by the "comply or explain" provisions in the current *ESG Reporting Guide* and the *Proposed Amendments* (regardless of whether the company provided an explanation)

The Industry Distribution of the Companies with ESG Information Disclosures Reviewed



Source: CECEPEC

Same as footnote 4

Same as footnote 5, referring to the 374 Hong Kong listed companies reviewed

Highlights

The Insights — Survey and Interview

Time consideration for the incorporation of ESG into corporate governance:

66% of the respondents have incorporated ESG into their corporate governance.

The function of ESG in companies:

44% ESG serves as an important part of business operations, and can provide indispensable impetus for corporate development across environmental and social aspects.

About companies' market competitiveness:

70% Companies that attach importance to ESG have greater comparative advantages and are more competitive in the marketplace as compared with their peers. Only **6%** respondents considered that due to relevant restraints, companies attaching importance to ESG have no obvious market comparative advantages over their peers.

At present/in the next 10 years:

Integrating ESG into corporate governance:

82% Identify ESG topics closely related to corporate sustainable development and keep track of relevant perfor nances.

74% ESG issues are updated periodically to board members/C-suite executives according to internal procedures.

The main obstacles encountered:

60% Lack of expertise or experience in tackling ESG issues.

The major ESG investment direction in the next three years:

74% Improve the company's ability to keep track of ESG topics, set up relevant management objectives, and review progress regularly.

36% Facilitate communications between the board and shareholders/investors on ESG issues.

36% Define responsibilities of the board/committee to oversee ESG issues. Only **6%** respondents expect no investment in ESG in the next three years.

Improving ESG Governance Level:

82% Enhancing corporate reputation and improving brand image.

80% Improving the company's ability to address regulatory risks.

Stakeholders of relatively higher importance in current corporate development:

80% Shareholders/ Investors

76% Governments/ Regulators

70% Clients/ Consumers

ESG topics that affect current corporate development considerably:

62% Use of resources

52% The conservation of nature and environmental protection

52% Occupational health and safety

Climate change:

62% respondents believed their businesses will be affected by climate change, in which, **68%** has already been affected.

58% Transitional risks

55% Physical risks

45% New market opportunities

The Facts — Review of Disclosed Information

HSI Constituents:

88% disclosed information about responsible units for ESG.

60% set up Board committee (dedicated for ESG) or delegated ESG responsibility to other Board committees.

52% Other Board Committees (ESG duties authorised) have participated in ESG issues.

80% disclosed ESG/social responsibility management system or policy.

Listed companies in Hong Kong[14]:

89% disclosed relevant information as required by the "comply or explain" provisions of the current *ESG Reporting Guide*.

54% disclosed relevant information required by the "comply or explain" provisions of the *Proposed Amendments*.

Around **30%** disclosed relevant information regarding climate change provisions of the *Proposed Amendments*.

[14] Same as footnote 5, referring to the 374 Hong Kong listed companies reviewed.

I The Insights:
Current Corporate Views on ESG

To understand the current and future view of ESG from a corporate perspective, we surveyed and interviewed 50 Hong Kong listed companies between August to September 2019, covering 11 sectors under the GICS industry classification. The survey and interviews targeted C-suite and other management personnel. Among the surveyed and interviewed companies, nearly 70% are central SOEs/SOEs.

Recently, the international investment community has swiftly changed its perception of green finance and ESG, proposed the vision of financing for sustainable development to collectively address ESG and climate-related risks. Entering into the new era of ESG, climate change has become one of the major threats to the long-term well-being of human society. Its wide range of influences and rapid changes have made it an indispensable duty of every private and corporate citizen on earth. This trend has inspired companies to incorporate ESG issues into their management and has also encouraged investors to integrate ESG factors into their investment strategies. At the beginning of 2018, sustainable investing assets stood at USD 30.7 trillion in the world's top five markets, a 34% increase in two years. Sustainable investment is one of the fastest growing segments of investment in recent years and has gradually become mainstream". As the market places a higher emphasis on ESG in recent years, complementing with the progressive implementation of regulatory requirements, companies are also paying more attention to the value proposition of ESG. Companies participated in the survey and interview believe that they would continue to improve ESG information disclosure and ESG management, and strengthening the establishment of internal ESG governance in order to enhance their market competitiveness, reputation and brand image, as well as their ability to adapt and monitor risks.

01 Is ESG the key to corporate success?

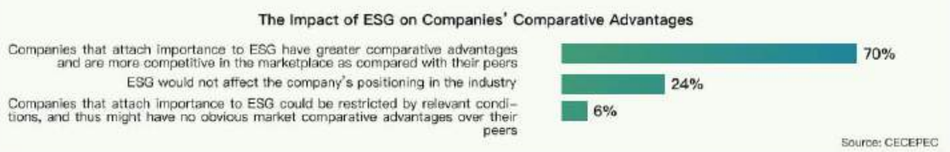
The survey results show that nearly 70% of the respondents believed that ESG could bring forth positive impacts to companies, among which, 44% of the respondents considered ESG as an important part of business operations, and could provide an imperative impetus for corporate development across environmental and social aspects. In the meantime, with the wide adoption of ESG investment approaches in the capital market, 20% of the respondents agreed that ESG could help attract potential investors and demonstrate the long-term sustainable value of the company. If a company sees future development and long-term benefits as its ultimate goals and targets when addressing ESG issues, the impact of financial risks from ESG issues could be minimised provided that a strategic approach is developed correspondingly". Furthermore, 6% of the respondents considered ESG management conducive to improving companies' market reputation. Similar to the results of our interview, some of the respondents (24%) still viewed ESG as a compliance-related consideration in response to requirements set out by regulators.

CITIC Limited

Companies' concern on ESG is in fact the evaluation and review of their own sustainable development performance. If the board and C-suite executives could ensure their effective engagement on ESG issues, the company's risk management capabilities would then be strengthened, which will help the company to identify its problems and weaknesses with regard to business management, thereby preventing social and environmental risks in a timely manner. In the meantime, ESG information disclosure also serves the purposes of summarising and showcasing the company's strengths and is beneficial to the company beyond meeting the compliance requirements. Peers could also learn from the successful experiences from each other and use relevant disclosures as good references.

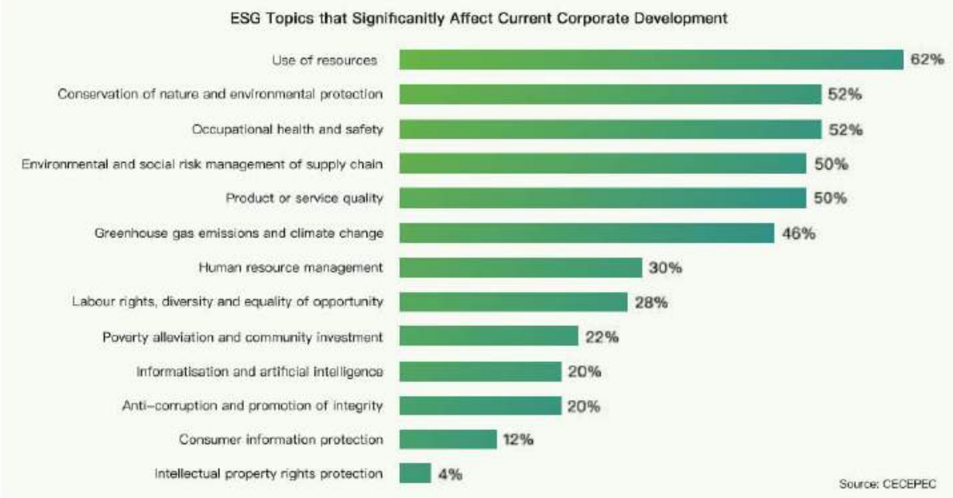
02 The value proposition of ESG to companies

Overall, 70% of respondents believed companies that attach importance to ESG have greater comparative advantages and are more competitive in the marketplace as compared with their peers. Yet, 24% of the respondents still expressed that ESG would not affect the companies' positioning in the industry. The remaining 6% even considered that companies that attach importance to ESG could be restricted by relevant conditions, and thus might have no obvious market comparative advantages over their peers.



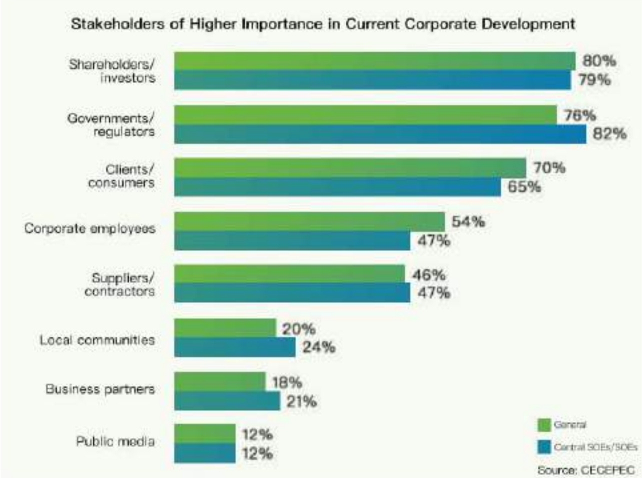
03 ESG topics that significantly affect current corporate development

A company's material topics are inextricably linked with its industry characteristics and its major stakeholders. The identification of material ESG topics is a key step for companies to comply with the reporting principle of "materiality", and is also vital for the preparation of a substantive and concise ESG report. The SEHK emphasised that materiality principle means when the Board determines an ESG issue that is important to investors and other stakeholders, issuers should disclose accordingly. Survey results show that the top five ESG topics that currently affect companies' development more are: use of resources (62%), occupational health and safety (52%), conservation of nature and environmental protection (52%), environmental and social risk management of the supply chain (50%) and product or service quality (50%). Hence, respondents generally agreed that environmental and social topics have had a certain degree of impact on their companies' development.



04 Key stakeholders in current corporate development

A company's success depends on maintaining an effective communication with its stakeholders. Alongside traditional financial and corporate governance reports, ESG report has been seen as another crucial communication channel for companies to engage with their investors and other stakeholders. Survey results show that respondents generally considered the following stakeholders who are more important in a company's development: shareholders/investors (80%), governments/regulators (76%), clients/consumers (70%), corporate employees (54%) and suppliers/contractors (46%).



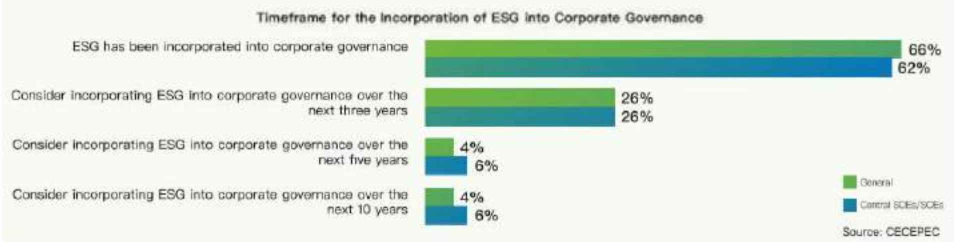
Compared to the general result, central SOEs/SOEs share similar perception of the importance of stakeholders while some minor differences could be found; for example, 82% of the central SOEs and SOEs consider governments/regulators as the most important stakeholder, which is 6% higher compared to the general result. Meanwhile, central SOEs and SOEs attach substantial importance to local communities, percentage-wise 4% higher than the general result. As the backbone of China's economy, central SOEs and SOEs mostly focus on key industries and fields that are vital to national security and China's economic lifeline, and their production and business activities involve all socio-economic activities and all aspects of people's lives. Therefore, irrespective of the reasons or motivations for central SOEs/SOEs to invest in and manage ESG issues, fulfilling their social and environmental responsibilities have long been the expectations of stakeholders such as government/regulators and local communities"

I The Insights:
Incorporating ESG into Corporate Governance

ESG has become an international hot topic in recent years. The improvement and enhancement of corporate governance should give weight to material ESG topics to avoid ESG-related risks and to seek greater development opportunities beyond meeting compliance requirements. In face of different expectations from international and local markets, stock exchanges around the world have already adopted a multi-pronged approach comprising listing rules, "comply or explain" provisions and/or voluntary guidelines to foster ESG information disclosure of listed companies. As for companies listed in Mainland China and Hong Kong, thorough incorporation of ESG into their corporate governance has become a pressing issue.

01 Whether companies incorporate ESG into their corporate governance considerations

In October 2018, the China Securities Regulatory Commission issued the revised Code of Corporate Governance for Listed Companies, in which the basic framework for listed companies' disclosure of ESG reports was established in order to be in line with the development of ESG information disclosure in international capital markets, further enhancing the comparative advantage of China's capital market. While emphasising the need for listed companies to continue to strengthen their information disclosure on ESG governance, the SEHK also responded to international and local market expectations for listed companies to disclose their own management actions towards ESG risks and opportunities. Overall, 66% of respondents have already incorporated ESG into their corporate governance, while 26% of respondents considered incorporating ESG into corporate governance over the next three years. Only a handful (8%) of respondents would consider incorporating ESG into corporate governance over the next five to ten years.



02 How do companies see the benefits of improving ESG governance

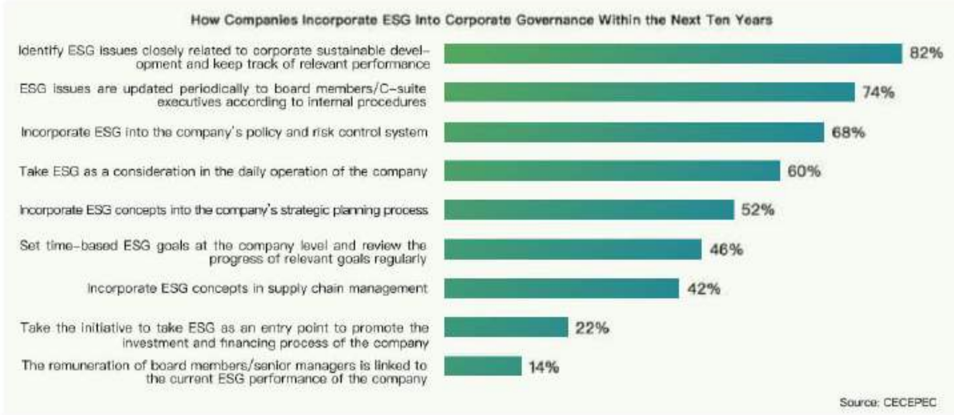
As ESG regulatory requirements become increasingly stringent, on top of meeting compliance requirements, we are also concerned about how companies view the correlation between the investments for ESG and the returns yielded. In view of the benefits of improving ESG governance, respondents have provided different insights, among which enhancing corporate reputation and improving brand image (82%), improving the company's ability to tackle and monitor risks (80%), and strengthening the company's competitive advantage in the industry (62%) are the three most significant benefits.

A leading Chinese cement group

The company believes that improvement in ESG governance level will enhance corporate image, level of recognition in the capital market and market competitiveness, thereby promoting the company's sustainable development. By disclosing ESG information, the company was able to organise its performance indicators systematically, which was beneficial to the company's management in safe production, energy conservation and emission reduction, occupational health, etc., which as a result promoted the company's sustainable development. In the meantime, local and international investors can evaluate the company's performance in ESG in a more quantitative, systematic and comparable manner, providing a strong basis for both sides' communication on ESG.

03 How do companies improve their ESG governance

It is a step-by-step process for companies to incorporate ESG into their governance. The ESG governance of a company is only effective if it is led by the board with ESG incorporated into its business strategic planning and into its day-to-day business operations, so that ESG-related risks could be identified and managed in a more precise manner, and at the same time to seize potential opportunities. Survey results show that respondents will incorporate ESG into their governance in the following means at present and within the next ten years: identify ESG issues closely related to corporate sustainable development and keep track of relevant performance (82%), ESG issues are updated periodically to board members/C-suite executives according to internal procedures (74%) and incorporate ESG into the company's policy and risk control system (68%).



04 Major obstacles that companies face when dealing with ESG issues

Although more than 90% of the respondents expressed that they had already incorporated or would incorporate ESG into their corporate governance within the next three years, they still face a number of obstacles during this advancement. Respondents generally considered that lack of expertise or experience in dealing with ESG issues (60%) could be the biggest obstacle when incorporating ESG into corporate governance. Secondly, ESG not being considered to have significant positive impact on the company's business (54%) is also considered as one of the key obstacles. Besides, the incorporation of ESG into corporate governance requires the attention and ongoing support from the board, C-suite, and shareholders/investors. Respondents expressed that the board or management not participating in ESG issues (18%), and the company fails to receive support from shareholders/investors on ESG work (18%) are other main obstacles hindering companies to incorporate ESG into their corporate governance.

Wang Xiaofeng, Datang Environment Industry Group Co., Ltd.

Datang Environment has endeavoured to meet relevant laws and regulations, and increased investment on the areas of environmental protection and corporate social responsibility, which played a positive role in improving the company's production management. Yet, current ESG requirements place higher emphasis on information disclosure, and have not directly promoted corporate investor relations and corporate financing. Although regulatory authorities' requirements for ESG information disclosure are of great importance in the market, their effectiveness is rather limited in influencing or monitoring companies' actual improvement in ESG performances. Companies still take ESG information disclosure as an end in itself, rather than a means to an end.

I The Insights:
Companies' Future Investment and Views on ESG

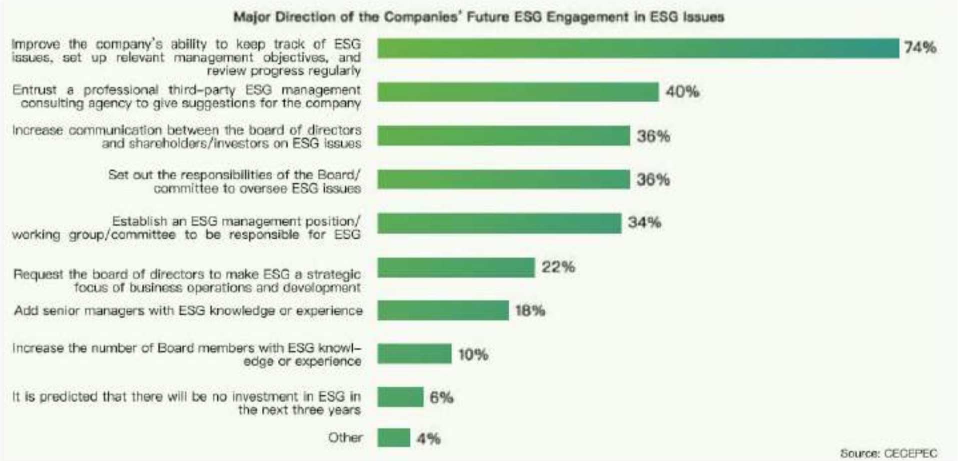
In the long run, the traditional criteria and considerations used to measure corporate value will gradually be replaced by more comprehensive strategies derived from ESG analysis as society and technology evolve rapidly. The integration of ESG can be seen as a systematic reflection of sustainable investing behaviour. Although companies are still facing various challenges when incorporating ESG issues into corporate governance, with the escalating awareness of the sustainability in the market, it is already a consensus for companies to strengthen their ESG competence.

01 The major direction of the companies' future engagement in ESG issues

The incorporation of ESG into corporate governance will not only help to enhance the management's involvement in the formulation of ESG strategies but will also help companies to identify potential non-financial risks in the operation process in advance, which enables them to address relevant risks in a timely manner, and ultimately to realise companies' sustainable development. According to the survey results, 74% of the respondents expressed that they would improve their ESG management capacity, set up relevant management objectives, and conduct regular progress review in the next three years.

The survey also finds that 40% of respondents said they would entrust a professional third-party ESG management consulting agency for ESG advisory over the next three years. This coincides with our findings in the previous section that most respondents saw the lack of expertise or experience in dealing with ESG issues as a major obstacle when incorporating ESG into corporate governance. Only 6% of the respondents expressed that they would not be expecting more investment in ESG issues in the next three years. In sum, companies generally take a positive attitude towards a more in-depth engagement in ESG issues.

Since the 18th National Congress of the Communist Party of China, Mainland China has actively promoted the integrated layout of "Five-Pronged Overall Plan". The national financial system has earnestly implemented the central concept of ecological civilization construction, adopted the green development concept of "Lucid waters and lush mountains are invaluable assets", constantly improved the construction and basic institutional arrangements of the green financial system, expanded green investment and financing channels in an orderly manner, and innovated green financial tools. During its presidency of the G20 in 2016, China has taken a proactive role in building global consensus and promoting green finance development. According to the estimates made by the People's Bank of China, Mainland China needs at least three to four trillion yuan of annual green investment. Such a huge financing demand creates plenty of investment opportunities for domestic and foreign investors. As a national financial centre and a leading international financial centre in the world, Hong Kong has long been a gateway connecting Mainland China with the international market, which can effectively match the needs of both sides for green investment and financing, creating a win-win situation". Listed companies play a crucial role in strengthening the development of regional and international green finance. As the central system of business operation and management, the board and the management team implementing and strengthening the inputs of ESG in a top-down approach would be vital for the healthy development of green finance.



Huadian Fuxin Energy Corporation Limited

As a listed company mainly engages in clean energy development, Huadian Fuxin actively combines its business with green investment and financing in a bid to increase investment in the business of clean energy development and adheres to the path of diversified, clean and efficient energy development. Through green investment and financing, Huadian Fuxin not only provides a sound capital guarantee for its development but also improves its brand value as well as obtaining long-term recognition from investors.

02 ESG topics that affect corporate development to a larger degree in the future

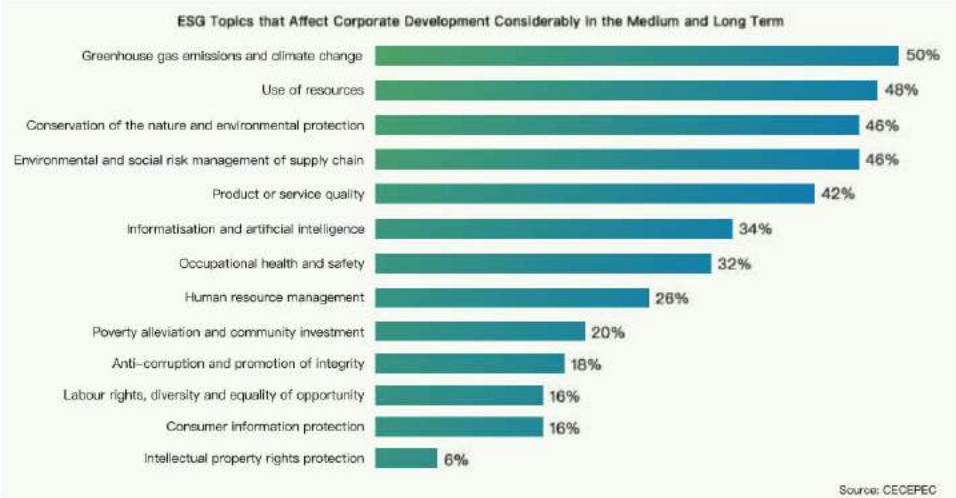
Amendments to the *ESG Reporting Guide* and the related *Listing Rules* are expected to take effect in 2020. From the domestic perspective, in 2016, seven former China's ministries and commissions issued the *Guidance on Building a Green Financial System* (《關於構建綠色金融體系的指導意見》), proposed to promote the "mandatory environmental information disclosure of listed companies". Subsequently, relevant regulators clarified the "Three-Step" path of China's environmental information disclosure. By 2020, all listed companies will be required to disclose environmental information . Currently, regulators in Mainland China have begun to study and formulate ESG information disclosure standards including environmental information disclosure. Disclosing corporate ESG information in Mainland China has become an inevitable trend, and mandatory ESG information disclosure policy is expected to be released. In the future, the disclosure of ESG information by listed companies in Mainland China and Hong Kong will be further subject to supervision and control by the regulatory bodies, and the requirement of ESG information disclosure will be increasingly stringent.

As compared to the ESG topics that are currently considered to affect corporate development considerably, similarly the top five ESG topics that are considered to affect corporate development in the medium- and long-term also include use of resources (48%), conservation of the nature and environmental protection (46%), environmental and social risk management in the supply chain (46%), and product or service quality (42%). It is worth noting that respondents believed that the impact of greenhouse gas emissions and climate change (previously 46%) and informatisation and artificial intelligence (previously 20%) would increase significantly, which mean these ESG issues are considered to affect corporate development to a larger degree in the medium- and long-term.

Countries all over the world are increasingly concerned about climate change in recent years. Since China has ratified to the 23rd Paris Agreement, great importance has been attached to building resilience and adapting to climate change. China has been proactively controlling carbon emissions, fulfilling its pledge on combatting climate change and enhancing its climate resilience. By developing and implementing plans such as The Work Plan for Greenhouse Gas Emission Control during the 13th Five-Year Plan Period, China has been contributing significantly to the global response to climate change".

In the context of countries' proactive effort in tackling climate change, the SEHK strengthened the disclosure requirements on climate change in its amendments of the *ESG Reporting Guide*, which could be seen as an evidence to support the higher number of respondents taking greenhouse gas emissions and climate change as their priority ESG topic in the medium and long term.

In addition, through systematic analysis and ESG data management, investors can evaluate companies from a more comprehensive perspective. By means of informatisation and artificial intelligence, real-time tracking of ESG-related performance indicators and grasping the initiatives over market trend would enable companies to avoid risk losses in advance and also to capture relative earnings . The current development of artificial intelligence and big data-related technologies further strengthens investors' application of non-financial information when evaluating corporate investment risks and analysing the stability of investment returns.



CGN New Energy Holdings Co., Ltd.

CGN New Energy believes that ESG plays a significant role in promoting the long-term development and overall performances of the company. CGN New Energy actively identifies current and future corporate risks and opportunities in economic, environmental and social aspects. Through science and technology upgrades and management improvements, CGN New Energy reduces its operating costs and improves its operational efficiency. Meanwhile, the company increases its efforts in environmental protection, energy conservation and emission reduction, to comply with laws and regulations and to fulfil its social responsibility. Continuous investment in ESG enables CGN New Energy to establish and consolidate its competitiveness in the industry and reflect its long-term brand value, which enables the company to better adapt to the ever-changing market environment and increasingly strict environmental and social regulation, and to achieve a better and sustainable future for the company.

I The Insights: Companies' Views on Impacts of Climate Change

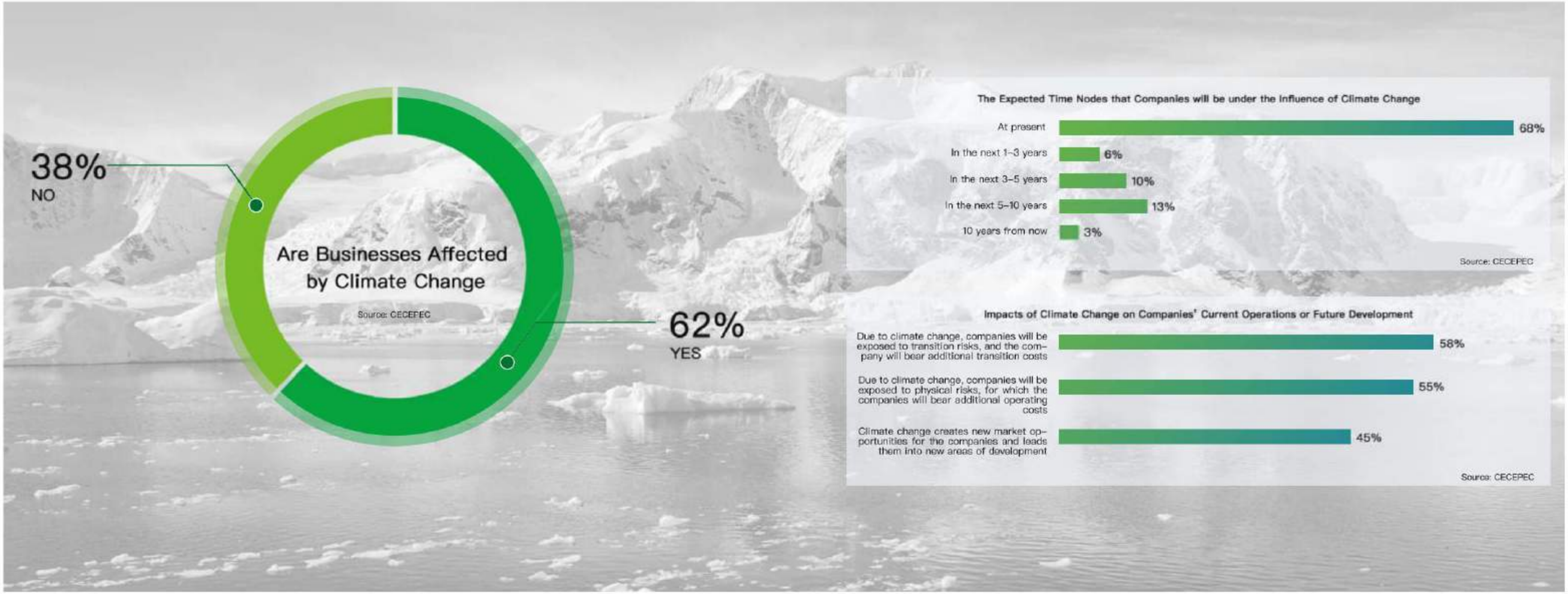
With the increased frequency of extreme weather around the world led by climate change in recent years, there has been an escalating market demand for corporate climate-related information. Understanding that inadequate information can lead to the mispricing of assets and a misallocation of capital, more and more financial decision makers are demanding information on the business risks and opportunities associated with climate change[11].

01 How do companies see the impact of climate change on their businesses?

Results show that 62% of the respondents expressed that climate change has an impact on their daily operations, while 38% of the respondents considered their daily operations unaffected by climate change. At the same time nearly 70% of the respondents, who believed climate change has an impact on their daily business operations, stated that their business operations have already been affected. The percentage of respondents who expressed that climate change will affect their business at different times in the future ranges from 3% to 13%, while a total of 32% of respondents believed that the business impact of climate change would be revealed within the next ten years.

It is worth noting that more than half of the respondents that regarded their business operations have already been impacted by climate change considered the impact a negative one to their businesses. 58% and 55% of the respondents believed that they are exposed to transition risks and physical risks due to climate change respectively. Common transition risks led by climate change include the transition costs that companies need to bear in daily operations to reduce greenhouse gas emissions and for energy efficiency improvements. Relatively speaking, the physical risks of climate change are more direct and prominent, such as the costs that companies have to bear due to suspension of daily operations, due to the destruction of facilities, and due to the shortage of production materials caused by extreme weather (e.g., rainstorm, heavy snow, floods, droughts, high temperatures, severe cold, etc.).

At the same time, 45% of the respondents thought climate change can create new market opportunities for the companies and lead them into new areas of business development. Thus, it can be seen that some companies have a positive attitude towards the impact of climate change on their daily operations. In order to mitigate and adapt to climate change, companies can improve their business performances and gain more business opportunities by improving resource utilisation, achieving cost-saving, using clean energy, developing new products and services, exploring new markets, and empowering their supply chain to better address environmental risks.



China Unicom (Hong Kong) Limited

In terms of climate risk management and control, China Unicom actively contributes to climate change adaption by improving its green procurement system, establishing a monitoring and data collection system for green development, vigorously carrying out research and development of energy-saving technologies, and advocating green office. In addition, with China Unicom's technological advantages in cloud computing, big data, Internet of Things, mobile internet and other aspects, it constantly innovates green products and applications, launches information-based green solutions, supports the low-carbon development of the industry, seizing the development opportunities of industrial upgrade in the new era.

[11] Global Sustainable Investment Review 2018, Global Sustainable Investment Alliance, March 2018, http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

[12] How to prepare and ESG report?, HKEX, November 2018, https://www.HKEX.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Listed-Issuers/Environmental-Social-and-Governance/How-to-Prepare-an-ESG-Report/steps_c.pdf?la=zh-HK

[13] Notice on Issuing the Guidelines to the Central State-owned Enterprises on Fulfilling Corporate Social Responsibilities | 《关于印发〈关于中央企业履行社会责任的指导意见〉的通知》, State-owned Asset Supervision and Administration Commission of the State Council, January 2018, http://www.sasac.gov.cn/n2588035/n2588320/n2588335/c4260686/content.html

[14] Promoting Green Finance with a Multi-pronged Approach | 《多管齐下 推动绿色金融》, Paul Chan Mo-po (Financial Secretary of Hong Kong SAR), June 2018, https://sc.news.gov.hk/TuniS/www.news.gov.hk/chi/2018/06/20180610/20180610_154108_802.html

[15] Further Promoting the Implementation of the Share Scheme of the Guidelines for Establishing the Green Financial System Symposium | 《进一步推进〈落实《关于构建绿色金融体系的指导意见》的分工方案〉座谈会情况》, People's Bank of China Research Bureau, April 2018, http://www.greenfinance.org.cn/displaynews.php?id=2334

[16] Progress Report on China Implementation of 2030 Agenda for Sustainable Development, the Ministry of Foreign Affairs, August 2017

[17] ESG Investment Will Embrace More Development Opportunities in the Era of Big Data, China Securities Journal, July 2019, http://www.cs.com.cn/tzjj/jks/201907/t20190702_5964031.html

[18] Global Climate Change Analysis 2018, CDP, 2018, https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018

II The Facts:
HSI Constituents' Status of ESG Governance Disclosures

In November 2018, the Hong Kong Financial Services Development Council recommended the SEHK to require a listed company's ESG report to demonstrate the company's governance structure on ESG, with emphasis on the role of the board in the oversight of assessing and managing material environmental and social topics". In May 2019, SEHK announced the publication of Consultation Paper "*Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules*" ("*Proposed Amendments*"), in which it stated the demonstration of the company's governance structure on ESG as the most important change of the review. To emphasise the importance of the ESG governance structure and the role of board's leadership and to promote accountability of the board in this regard, SEHK proposed to introduce mandatory disclosure requirements to improve issuers' ESG performance and reporting .

Through preliminary review of the status of ESG governance disclosures of 50 HSI Constituents" samples of this report, the specific measures and development of the corporate governance practices were analysed and summarised.

We mainly analysed the ESG governance disclosure status of HSI Constituents through the following three aspects.

Aspects of ESG Governance Disclosure	Description
ESG governance structure	Refers to whether a company discloses the establishment of responsible units for ESG in its corporate governance structure, such as committees, working groups and departments, and, where applicable, the position of the head of the responsible units.
Duties of the responsible unit for ESG	Refers to whether a company discloses the specific governance duties of the responsible units for ESG: • Identification of ESG topics • Management of ESG topics • Setting targets for ESG topics
ESG governance practices	Refers to whether a company discloses the implementation of a specific ESG governance practice, for example, whether the compensation/bonus of board members/C-suite executives are tied in with the current ESG performance of the company, etc.

01 HSI constituents' ESG governance structure

The review results show that overall, 88% of the HSI constituents have disclosed information about responsible units for ESG, while 12% of the HSI constituents have not disclosed any information directly related to responsible units for ESG. Some HSI constituents disclosed more than one responsible unit for ESG.

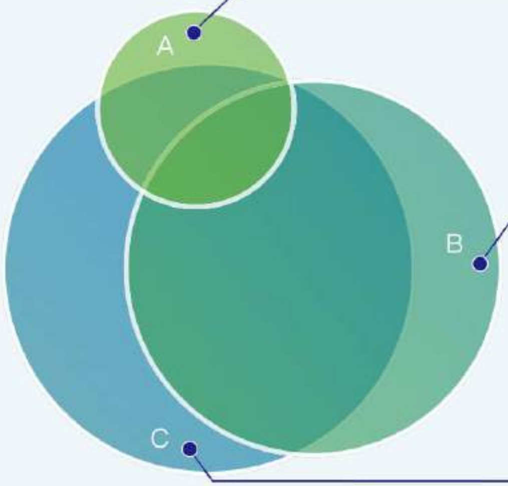
Environmental, Social and Governance (ESG) Strategy for Hong Kong (《香港的「環境、社會及管治」(ESG) 策略》), HK Financial Services Development Council, November 2018, http://www.fsdc.org.hk/sites/default/files/ESG%20paper%20%28Eng%29_Final_0.pdf

Consultation Paper "*Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules*", SEHK, May 2019, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en

Same as footnote 5.

II The Facts:
HSI Constituents' Status of ESG Governance Disclosures

Situation of Responsible Units for ESG Disclosed by HSI Constituents



Dedicated ESG Board Committee

A Board-level committee such as the environment, social and governance committee, corporate social responsibility committee, and sustainable development committee, etc. set up to be responsible for ESG issues.

Other Board Committee (ESG duties authorised)

The committee was established at the Board level, such as the audit committee, risk management committee, strategy committee, etc. Not only do these committees have their original functions, but also serve ESG-related functions.

Other units (responsible for ESG)

Non-Board level units responsible for ESG-related issues, including working groups, business departments, committees, etc.

Type		Percentage
A	Dedicated ESG Board Committee	4%
B	Other Board Committees (ESG duties authorised)	12%
C	Other Units (responsible for ESG)	28%
A & C	Dedicated ESG Board Committee	4%
	Other Units (responsible for ESG)	
B & C	Other Board Committees (ESG duties authorised)	32%
	Other Units (responsible for ESG)	
A & B & C	Dedicated ESG Board Committee	8%
	Other Board Committees (ESG duties authorised)	
	Other Units (responsible for ESG)	

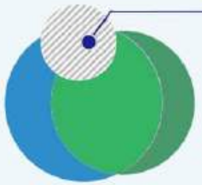
Overall situation

The results show that among the HSI constituents that have responsible units for ESG disclosed in publicly available information, there are more companies with other board committees (ESG duties authorised) and other units (responsible for ESG) than those with a dedicated ESG Board committee.

The most common corporate governance structure is one that consists of the other Board committees (ESG duties authorised) with other units (responsible for ESG), which comprised 32% of the HSI constituents.

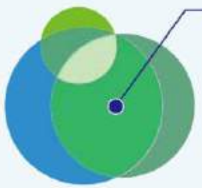
It is rare for companies to set up a dedicated ESG Board committee and to set up a dedicated ESG Board committee with other units (responsible for ESG), which only accounted for 4% of the HSI constituents.

Structures and functions



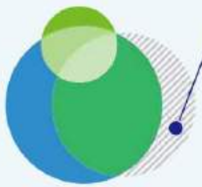
For HSI constituents with a dedicated ESG Board committee:

- All companies clearly define the responsibilities and functions of the dedicated ESG Board committee through the public ToR document, and report the work of the committee regularly in their corporate governance report;
- All companies have set up units responsible for the identification and management of ESG topics;
- More than 90% of companies have units responsible for ESG target setting, which is significantly higher than other ESG governance structures.



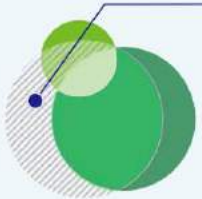
For HSI constituents that have both other Board committees (ESG duties authorised) and other units (responsible for ESG):

- At the level of other Board committees (ESG duties authorised), all companies grant the committee the function of ESG topic identification;
- At the level of other units (responsible for ESG), more than 90% of companies specially set units responsible for ESG, and all companies choose to entrust Board members or senior management to take the leadership of this functional unit;
- ESG topic management and target setting functions are more often delegated to other units (responsible for ESG).



For a governance structure with only other Board committees (ESG duties authorised):

- Only 30% of companies specify ESG functions in the ToR document of the Board committee;
- Half of the companies only grant the functional unit the responsibility of ESG report review and audit;
- No ESG target setting function has been granted by any of the companies;
- The most common ESG functions are ESG report preparation, followed by ESG management.



For governance structures with only other units (responsible for ESG):

- Over 40% of companies are led by Board members or senior management;
- 70% of companies set up a governance framework specifically for ESG functions, and the other 30% assigned ESG functions to existing departments. Half of the companies set up a governance framework specifically for ESG functions clearly defined the responsibility to report directly to the Board of directors on ESG performance;
- Nearly 60% of companies choose to disclose the specific responsibility scope related to ESG of the functional unit in their ESG report;
- The most common ESG functions are ESG report preparation, ESG topic management, and ESG topic identification.

II The Facts:
HSI Constituents' Status of ESG Governance Disclosures

01 The Board of directors' involvement in ESG issues of HSI constituents

Results of the review show that 60% of the HSI constituents have established dedicated ESG Board committee or other Board committees (ESG duties authorised) to ensure the participation of Board members in ESG issues and to fulfil their ESG-related responsibilities.

It is worth noting that 28% of the HSI constituents only set up other units (responsible for ESG) (a total of 14 companies), among which 3 of the companies disclosed that the units were led by Board members, 3 other companies disclosed that the units were led by senior management, and the remaining 8 companies did not disclose the position that is leading the units. Of these 8 companies, 3 of them indicated that their other units (responsible for ESG) would report ESG performance to the Board.

Overall, 72% of the HSI constituents have explicitly disclosed the roles of the Board members regarding ESG issues, which include ESG topic identification, management, target setting, performance reporting, etc. Among them, 12% of the companies involve their board members in ESG issues by setting up other units (responsible for ESG) and appointing the Board members as the units' leaders or requiring the units to report ESG performance to the Board.

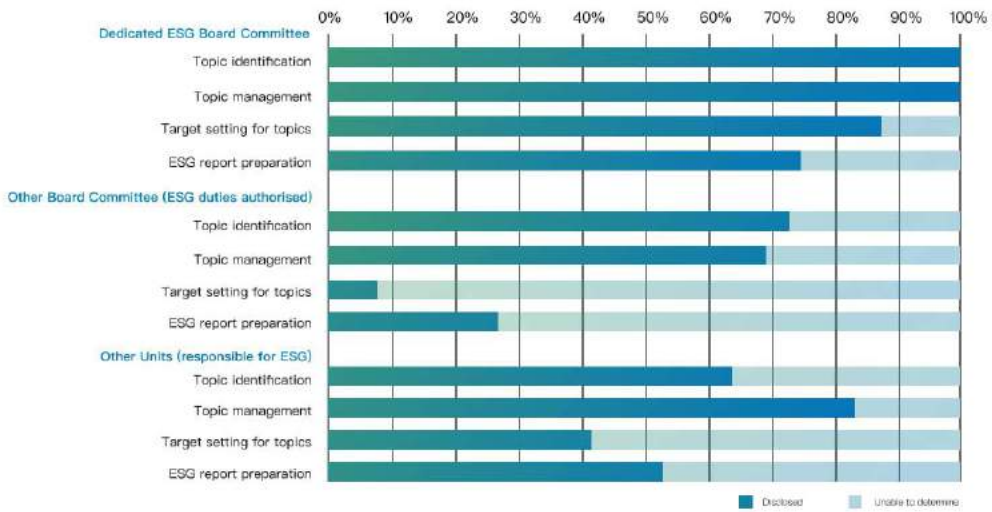
02 ESG governance functions of HSI Constituents

The review reveals a relatively complete disclosure of functions of dedicated ESG Board committee, whose ToR documents provide stakeholders with a clear understanding of how the establishment of a dedicated ESG Board committee will assist the Board of directors in fulfilling its ESG-related responsibilities.

It is worth noting that although 52% of HSI constituents indicated that their other Board committees (ESG duties authorised) participate in overseeing ESG issues, some of them have not yet clearly disclosed their ToR for ESG functions, implementation methods and how the committee would assist the board of directors to fulfil their ESG-related responsibilities. The disclosure content regarding the function of target setting on ESG topics was typically missing.

Overall, there remains room for improvement for HSI constituents to improve their disclosure of governing units' functionality.

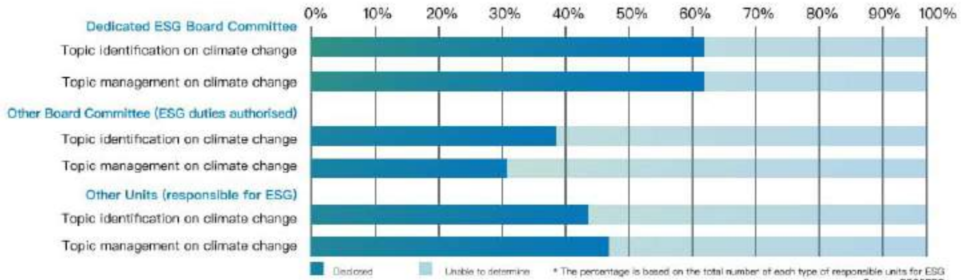
Functions of Responsible Units for ESG of HSI Constituents*



* The percentage is based on the total number of each type of responsible units for ESG
Source: CECEPEC

Review results show that 63% of HSI constituents which have set up dedicated ESG Board committees publicly stated that functions of these committees include topic identification and management of climate change issues. In addition, less than 50% of HSI constituents which set up other Board committees (ESG duties authorised) and other units (responsible for ESG) stated in their public information that such committee has function related to climate change.

Climate Change-related Functions of Responsible Units for ESG of HSI Constituents

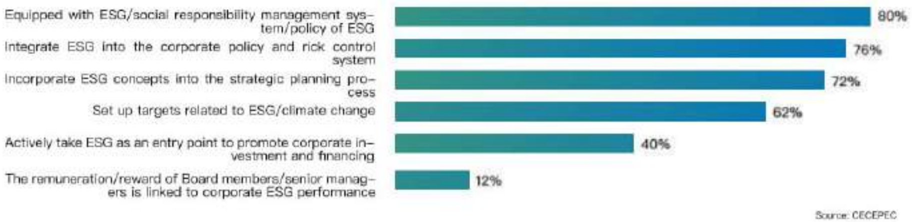


* The percentage is based on the total number of each type of responsible units for ESG
Source: CECEPEC

03 ESG Governance Practices of HSI Constituents

The results show that 80% of HSI constituents have disclosed that they are equipped with ESG/social responsibility management system/policy of ESG. 76% of HSI constituents disclosed that ESG had been incorporated into their corporate policy and risk control system, and 72% of HSI constituents disclosed that ESG concept has been incorporated into their strategic planning process. 62% of HSI constituents have set up targets related to ESG/climate change. 40% of HSI constituents disclosed that ESG was actively used as an entry point to promote corporate investment and financing. A relatively small number of HSI constituents' remuneration/reward of Board members/senior managers is linked to corporate ESG performance, accounting for 12%.

ESG Governance Practices of HSI Constituents



Source: CECEPEC

II The Facts:

Overall Status of ESG Information Disclosures of Hong Kong Listed Companies [22]

Swire Pacific Limited

A good corporate governance structure is a prerequisite for embedding sustainability into core business strategies. There is no one-size-fit-all in good corporate governance for sustainability, it must be tailored to meet the organisations culture and operating environments. As a diversified conglomerate, we work with our businesses to develop a sustainability framework for the Group. Each of our operating companies then have the freedom and flexibility to operate in a way that fits their unique requirements within this overarching framework.

It is important that our operating companies are prepared for, and have the capacity to withstand, the negative impacts of climate change. Businesses need to identify and manage the physical risks of climate change to their operations and supply chains, and the risks associated with changes in regulation, in particular, those related to the transition to a low-carbon economy.

SEHK introduced the *ESG Reporting Guide* in 2013 in a voluntary compliance approach, and mandated companies to report on ESG issues in accordance with corresponding requirements in 2016. The *ESG Reporting Guide* is divided into two subject areas, environmental and social, where companies need to disclose the general disclosures and key performance indicators ("KPIs") of 11 aspects accordingly. 2018 is the third year that issuers were required to disclose ESG information in accordance with the *ESG Reporting Guide*. Companies' ESG Reports have been continuously improving and in general are highly compliant with the *ESG Reporting Guide*.[23]

Nonetheless, there is still room for improvement in terms of ESG information disclosure. On one hand, some companies failed to provide their stakeholders with meaningful and comprehensive ESG information; on the other hand, the ESG information disclosure requirements for Hong Kong and international markets are becoming increasingly stringent to meet capital market's growing demand on information disclosure. In response, SEHK issued an ESG consultation paper in May 2019 and suggested *Proposed Amendments* to refine the disclosure requirements, thereby to further improve the quality of issuers' ESG information disclosure by regulatory means. The *Proposed Amendments* to environmental and social disclosure requirements include: (1) introducing aspect on climate change and revising environmental KPIs; (2) upgrading the disclosure obligation of social KPIs to "comply or explain"; (3) revising the social KPIs.

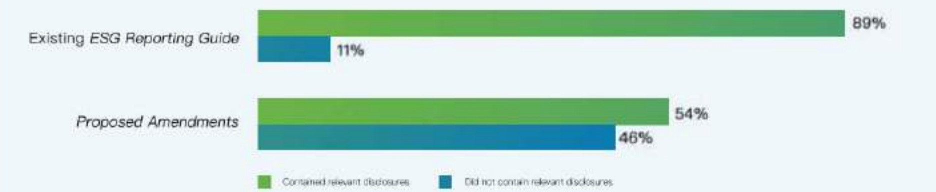
As we have been keeping close track of companies' ESG reports, we not only continue to understand whether required ESG information was disclosed by reviewing companies' ESG report against the current *ESG Reporting Guide*, we also try to understand companies' readiness for the *Proposed Amendments*.

01 The disclosure status of "comply or explain" provisions of the current *ESG Reporting Guide* and the *Proposed Amendments*

The results of the ESG disclosure review show that on average, 89% of respondents disclosed information as required by the "comply or explain" provisions of the current *ESG Reporting Guide*, and only 11% of the respondents did not meet the disclosure requirements with some of them provided an explanation for not disclosing the required disclosure information. The results are broadly in line with SEHK's analysis results of issuers' ESG reports in 2016/2017 (companies in general were highly compliant with the *ESG Reporting Guide* but the report quality was variable) as well as our analysis results of 2017 ESG reports (most companies disclosed information for the "comply or explain" provisions)[24]. Companies have maintained a good level of ESG disclosure at the request of the current *ESG Reporting Guide*.

Regarding information required by the "comply or explain" provisions of the *Proposed Amendments*, an average of 54% of the companies disclosed corresponding information while 46% of the companies did not, resulting in a similar disclosure and non-disclosure ratio which is a different disclosure situation from that of the *ESG Reporting Guide*. Some of the companies have already started disclosing relevant information despite the fact that disclosure requirements in the *Proposed Amendments* have yet become effective. Although stock exchanges have yet to impose the disclosure requirements, some companies are more proactive and have already disclosed more ESG information in line with their business development needs, and are more prepared to respond to requirements of the *Proposed Amendments*.

A Comparison of Disclosure Status of the "Comply or Explain" Provisions of the Current *ESG Reporting Guide* and the *Proposed Amendments*



Source: CECEPEC

[22] Same as footnote 5, referring to the 374 Hong Kong listed companies reviewed.

[23] *Analysis of Environment, Social and Governance Practice Disclosure in 2016/2017*, HKEX, May 2018, 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; Consultation Paper "Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules", SEHK, May 2019, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en

[24] *2017 Environmental, Social and Governance Reports Issued by Hong Kong Listed Companies — A Study on Disclosure Performance*, CECEPEC, November 2018

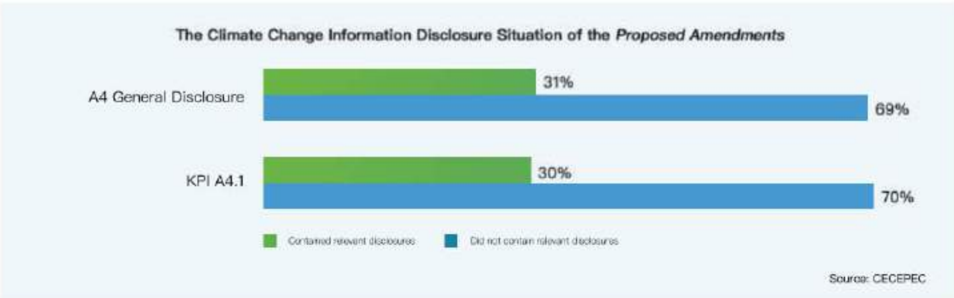
II The Facts:

Overall Status of ESG Information Disclosures of Hong Kong Listed Companies

02 The disclosure status of the newly introduced climate change disclosure[25] in the *Proposed Amendments*

For SEHK, the newly introduced aspect on climate change disclosure was mainly a response to investors' demand for more information on climate change's impact and potential impact on companies, and its expectation for companies to tackle this pressing issue[26]. The results of the review show that only about 30% of the companies have already disclosed relevant information regarding A4 General Disclosure and KPI A4.1 of the *Proposed Amendments*, while about 70% of the companies did not disclose relevant information.

Though investors pay more attention to climate change-related information, voluntary compliance climate-related disclosure recommendations have also emerged in the market. For instance, the Taskforce on Climate related Financial Disclosures ("TCFD") published its recommendations in June 2017. As aforementioned in this report, although companies are aware of the importance of climate change, most companies still have not yet disclosed information about climate change in the absence of mandatory disclosure requirements, with only a small number of companies voluntarily disclosing such information.



03 Hong Kong listed companies'[27] perception on the "Mandatory Disclosure Requirements" and the "comply or explain" provisions of the *Proposed Amendments*

Admittedly, SEHK wishes to bring ESG requirements on par with international standards by suggesting the *Proposed Amendments* to the *ESG Reporting Guide* and *The Listing Rules*. As a matter of fact, there has been a notable acceleration in the number of countries that promulgate laws and introduce regulations on ESG reporting in the recent years. Many countries adopted a multi-pronged approach comprising laws, listing rules, "comply or explain" and/or voluntary guidelines to boost ESG information disclosure. Meanwhile, it is also an international trend to continuously increasing the level of reporting obligation (i.e. "comply or explain" and/or mandatory)"[28]. "The development of the *ESG Reporting Guide* has been, and will continue to be, an evolutionary process, with the longer-term goal of achieving better and more comprehensive ESG reporting amongst our issuers", stated by SEHK in the ESG consultation conclusions in 2015.

In May 2019, to complement with SEHK's public consultation on the *Proposed Amendments*, a total of 98 Hong Kong listed companies participated in our webinar on the *Proposed Amendments*. At the same time, we collected and analysed participating companies' views on the *Proposed Amendments* provisions.

"Mandatory disclosure requirements" - Governance structure:

SEHK stated that the Board's involvement in ESG would also help to promote the Board's understanding of ESG issues and its accountability in this area. Therefore, investors and other stakeholders could have a better evaluation of Boards' performance and progress regarding ESG strategy and goal setting. Survey results show that 59% of respondents agreed to disclose their ESG governance structure in the financial year of 2020, and to include in a Board statement (a) a disclosure of the Board's oversight of ESG issues; (b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and (c) how the Board reviews progress made against ESG-related goals and targets.

"Comply or explain" provision – Aspect A4 on climate change:

The Securities and Futures Commission of Hong Kong ("SFC") once pointed out that, as a market regulatory authority, the SFC is committed to developing green finance in Hong Kong and promoting green development in Mainland China, such that advantages of the two regions are mutually complementary. The SFC also expressed that the top priority in green finance is to strengthen listed companies' environmental disclosures, especially their climate-related disclosures[29]. According to the online survey results, more than half of the participating respondents have not yet agreed to disclose or explain their policies, performance indicators, and initiatives with regard to climate change in the financial year of 2020.

[25] A4 General Disclosure: policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; KPI A4.1: requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them.

[26] Consultation Paper "*Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules*", SEHK, May 2019, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en

[27] This represents the 98 Hong Kong listed companies that participated in the webinar on Proposed Amendments in May 2019.

[28] Consultation Paper "*Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules*", SEHK, May 2019, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en

[29] *Strategic Framework for Green Finance*, SFC, September, 2018, https://www.sfc.hk/web/TC/files/ER/PDF/SFCs%20Strategic%20Framework%20for%20Green%20Finance%20-%20Final%20Report%20(21%20Sept%202018....pdf

Summary

Taking an overview of the global capital market, as there has been a rising number of investors integrating ESG factors into investment decision-making, market regulatory authorities have intensified efforts to narrow the gap between the overall ESG performance and disclosures of listed companies and the expectations of investors. Results of this research show that companies in the China market are increasingly paying attention to ESG issues. In addition to meeting compliance requirements, companies in the China market have taken a more serious stance towards the correlation between investments and the returns of ESG management. Notwithstanding the fact that governments, regulatory authorities and financial markets have already taken various measures for the development of green finance, the establishment of a comprehensive green financial infrastructure and associated green financing facilities are much needed now to promote green finance, and for the seamless co-developments on ESG policy, ESG management and disclosures.

Board's participation and sound governance are the key for proper management of risks in ESG and for seizing relevant opportunities in the long run. Results of this survey and interviews have shown that most companies would take actions to identify ESG topics, continue to build their capacities in the management of ESG topics, establish corresponding management targets, and conduct regular progress review within the next ten years, as principal means to integrate ESG into their corporate governance. Based on reviewing disclosures by HSI constituents regarding their Boards' involvement in ESG, it is found that the Boards of majority HSI constituents have already incorporated ESG-related practices as part of their corporate governance. Nevertheless, there remains significant room for improvement towards listed companies' governance structure, their duties and execution related to ESG.

Since SEHK upgraded disclosure requirements of the *ESG Reporting Guide* to "comply or explain" in December 2015, listed companies in Hong Kong have been actively fulfilling their disclosure obligations. After three reporting cycles, ESG disclosure performance among companies has been maintained at a reasonable level while some companies have even demonstrated capacity in meeting requirements of the *Proposed Amendments*. With increased investments in green finance and ESG in recent years, some investment institutions have begun to use Boards' level of participation on ESG issues and climate change adaptation capacity as indicators for overall performance evaluation on companies and for non-financial KPIs assessments. This is especially prominent under influences of the capital market where companies are increasingly attentive to impacts of these global issues on their daily operations. Only by identifying and managing risks and opportunities associated with ESG issues, companies can improve their business operations and seize these new business opportunities.

Looking forward, building good communication channels between listed companies and other stakeholders such as regulatory authorities and investors is an important safeguard to improve overall corporate ESG performance in the capital market, and to drive the continuous development of green finance. The co-development of green finance at the regional and global scale will require a closer cooperation among all parties, with regulatory authorities continuing to refine regulatory requirements based on the market's needs, investors continuing to pay close attention to ESG and directing its flow of capital accordingly, and listed companies enhancing their internal governance on ESG and ESG disclosures.

About HKGFA and CECEPEC

HKGFA 香港綠色金融協會 Hong Kong Green Finance Association

The Hong Kong Green Finance Association (HKGFA) was formally established on September 21, 2018, which brings together the talent and expertise of financial institutions and green businesses in Hong Kong. The HKGFA is committed to provide policy suggestions to the HKSAR Government and other regulators in developing green finance in the city and promote concepts of green finance and green investment. In addition, the association will lead research and development of green finance products, methodologies, and tools. The HKGFA will arrange local and international events creating a sharing platform for financial organisations participating in green finance and green investments in Hong Kong, Mainland China, and the Belt and Road Initiative, positioning Hong Kong to become a major international green finance centre. The HKGFA will serve as a hub for raising green capital, promoting the development of a Hong Kong green finance market through an increase in diversified green investment products, meeting the demands of both green businesses and investors.

http://www.hkgreenfinance.org/#en

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