2022 BDO ESG REPORTING PERFORMANCE SURVEY ON HONG KONG LISTED COMPANIES

ACCELERATING CLIMATE DISCLOSURE

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KEEPING UP WITH THE DISCLOSURE CHALLENGES

In this 5th BDO ESG Reporting Performance Survey on Hong Kong Listed Companies (the “Survey”), we have conducted a desktop survey and analysed 640 ESG reports published by Hong Kong listed companies from both Main Board and GEM with year-ended between 30 June 2021 and 30 June 2022. The Survey results reflected the current disclosure practices of Hong Kong listed companies in respond to the new disclosure requirements came into effect since 1 July 2020 when the consultation conclusion on the review of ESG Reporting Guide was published in 2019.

The Survey report is named “Accelerating Climate Disclosure” with a view to encourage listed companies to provide sufficient climate-related information, at a faster pace, in addressing investors’ information needs for their investment decision making. While the Survey results revealed that only 27% of the surveyed companies adopted TCFD Recommendations in preparing their ESG reports, the disclosure of the climate-related information, in general, are lacking under climate governance, strategy, risk management and metrics and targets.

On the other hand, though the disclosure of Scope 3 emission is optional under the HKEx ESG Reporting Guide, the Survey results showed that Hong Kong listed companies are ready for such disclosure as about 80% of the surveyed companies have already disclosed Scope 3 emission information in their ESG reports.

Investors nowadays are concerned about the integrity and reliability of the ESG information disclosed by listed companies and expect companies to obtain independent assurance over key ESG information. Though just 10% of the surveyed companies obtained independent assurance, it represented 2 times of increment when compared with our 2020 survey results.

Finally, with the expectation that the International Sustainability Standard Board’s S1 (General requirements) and S2 (Climate-related) disclosure standards to be released in Q2 2023 and to come into effect in 2024, companies are recommended to build their capabilities and expertise swiftly in meeting the disclosure requirements.

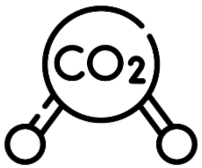
Ricky Cheng
Director and Head of Risk Advisory
BDO in Hong Kong

A SNAPSHOT

2x

Independent assurance increased by two times when compared to 2020

79%



Surveyed companies disclosed scope 3 emission

27%

Adopted TCFD Recommendations in ESG report

Climate change

Lacking oversight and expertise in **climate governance**

Inadequate disclosure about **strategic** resilience to climate change

Climate risks and opportunities not fully integrated into **risk management** framework

Metrics and targets setting are not science based

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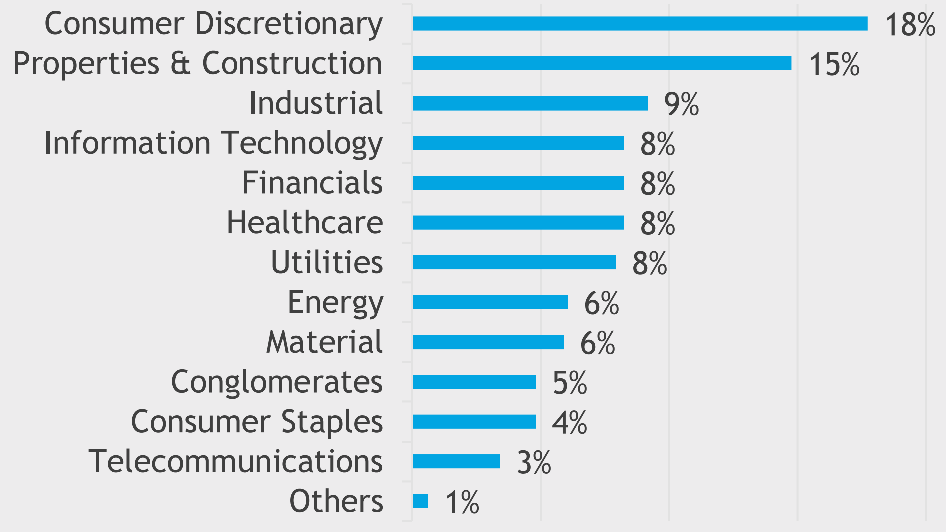
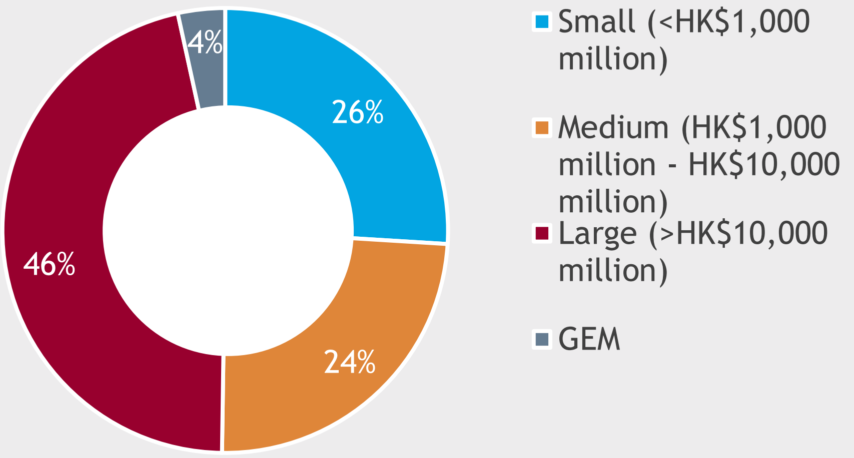
ABOUT THE SURVEY

The 2022 BDO ESG Reporting Performance Survey analysed the ESG reports published by 640 Hong Kong listed companies with financial year-ended between 30 June 2021 and 30 June 2022. Of which, 618 companies are from Main Board and 22 companies are from GEM.

By industry



By size



MANDATORY DISCLOSURE

Inadequate disclosure over ESG governance practices

The issuer is required to make a statement to cover:

- Board oversight
- ESG management approach and strategy
- Review process of goals and targets

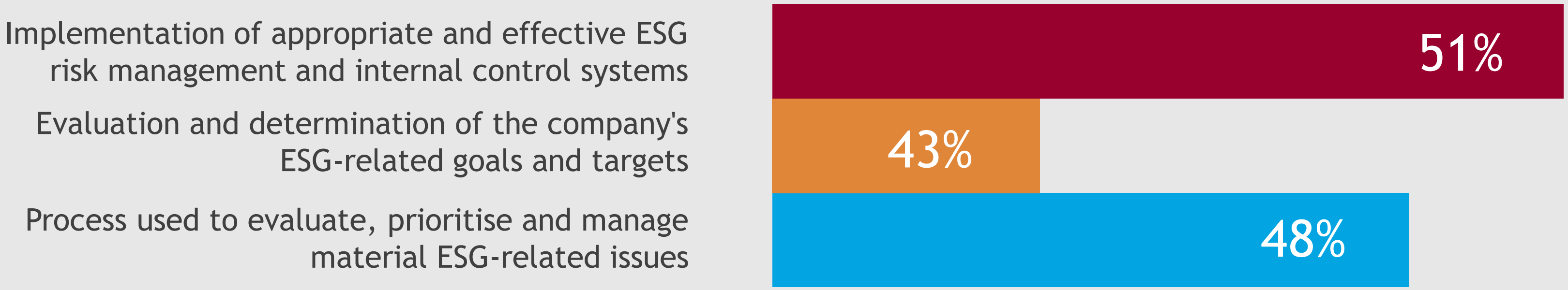
44% Set up board committee to manage ESG issues

60% Board oversight of ESG issues

56% Set up ESG working group to manage ESG issues

51% Board's ESG risk management approach and strategy

Did the report disclose information on the board's ESG management approach and strategy regarding:



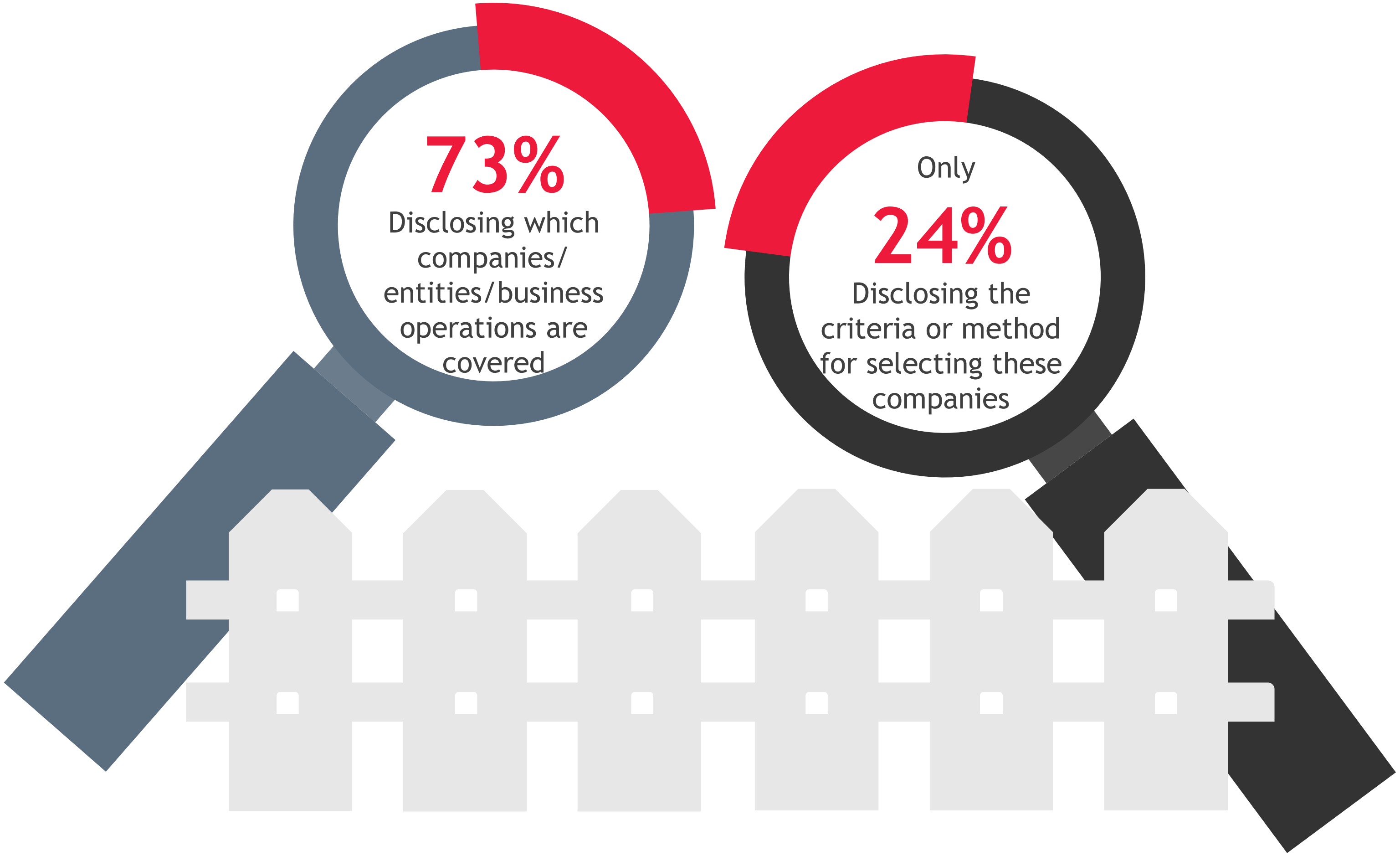
MANDATORY DISCLOSURE

Lacking criteria for determining reporting boundary

The issuer is required to make a narrative statement to:

- Explain reporting boundaries
- Process used to identify the operations and entities

Did the report explain how to determine the reporting boundaries by:

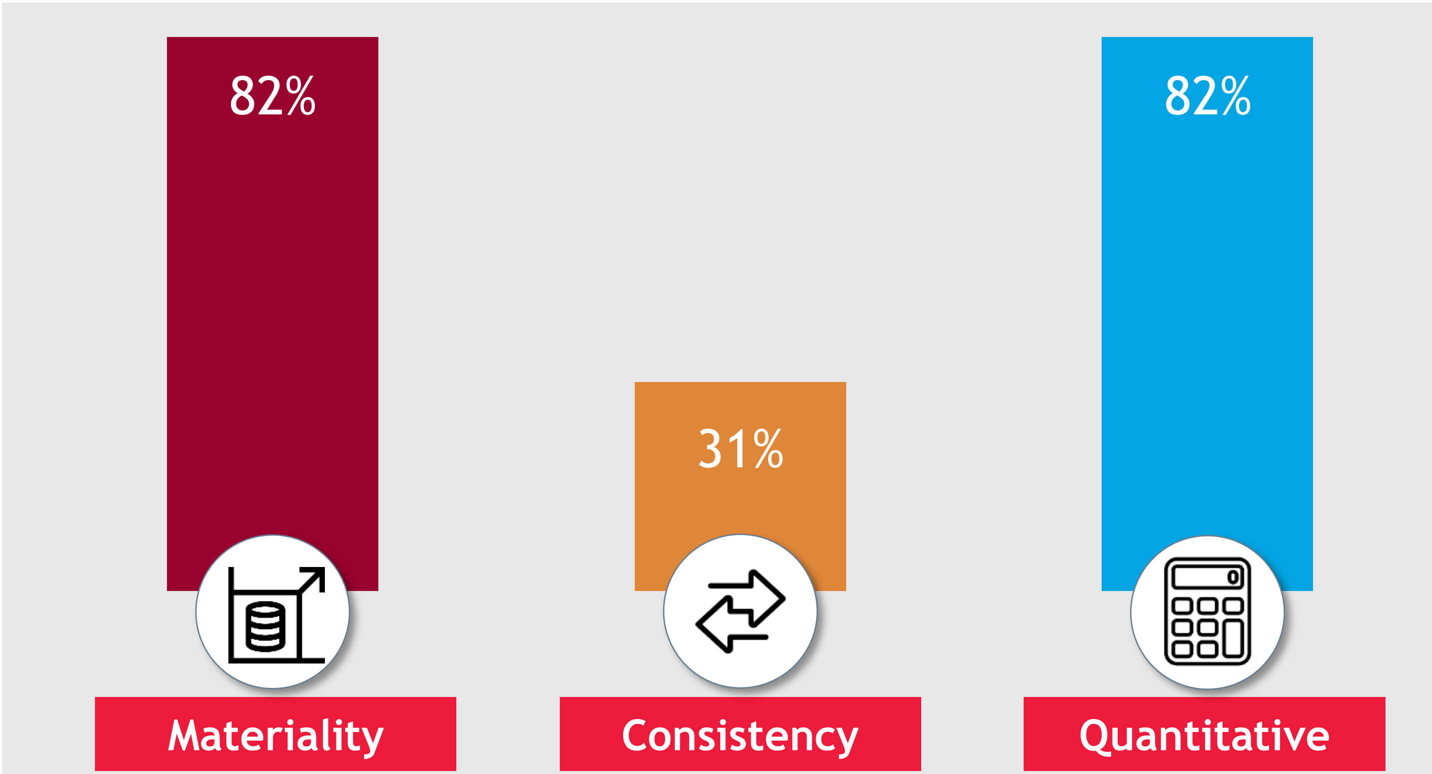


MANDATORY DISCLOSURE

Disclosure on consistency principle was lacking

The issuer is required to explain the application of the three principles:

- Materiality
- Quantitative
- Consistency



Materiality: Did the report disclose the method or process used to conduct materiality assessment?

Consistency: Did the report disclose information on any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison?

Quantitative: Did the report disclose the methodology used for the KPIs?

CLIMATE CHANGE

Governance

Strategy

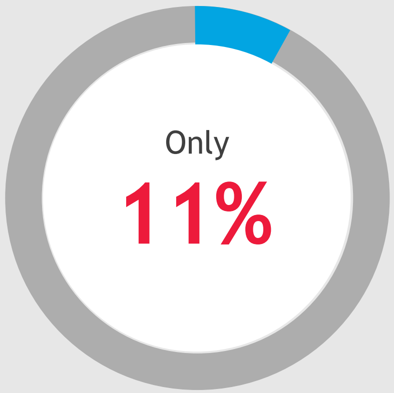
Risk management

Metrics & targets

CLIMATE GOVERNANCE

Lacking oversight and expertise in climate governance

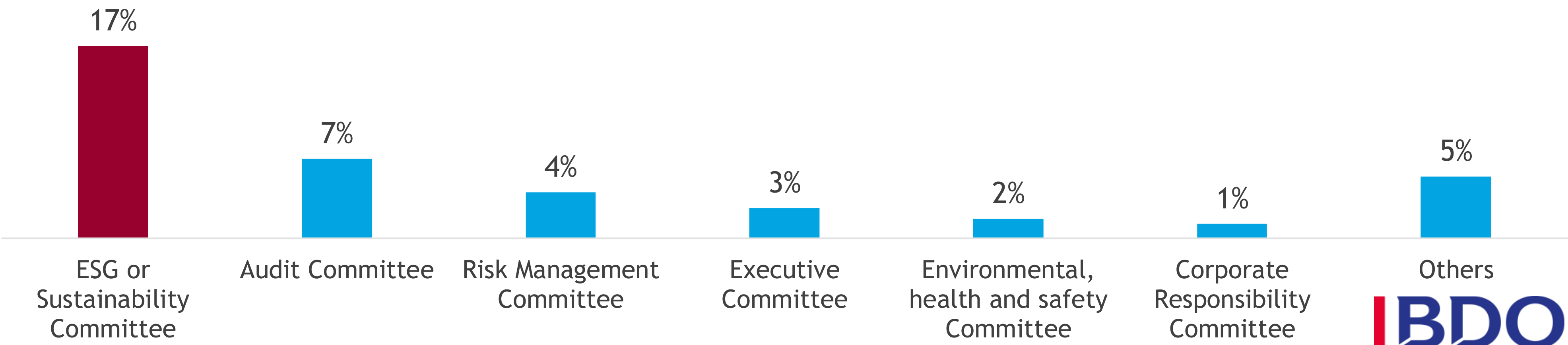
Did climate-related performance link to the remuneration of CEO?



Did climate change being a regular board agenda item?

Were members with climate expertise appointed to the board?

Which of the following board committee is responsible for handling the climate change issues?



CLIMATE STRATEGY

Inadequate disclosure about strategic resilience to climate change

CLIMATE RISK MANAGEMENT

Climate risks and opportunities not fully integrated into risk management framework

Merely **45%**

Did the company disclose the mechanism of identifying and assessing the significant climate-related issues including risks?

32%
Climate-related risk integrated into risk management

Did the company clearly describe:

Risk	Opportunities
48%	25%

Did the company consider the climate risks and impact in different time horizon - short, medium and long term?

Only **13%**

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METRICS AND TARGETS

Metrics and targets setting are not science based

48% of the surveyed companies had set environmental targets

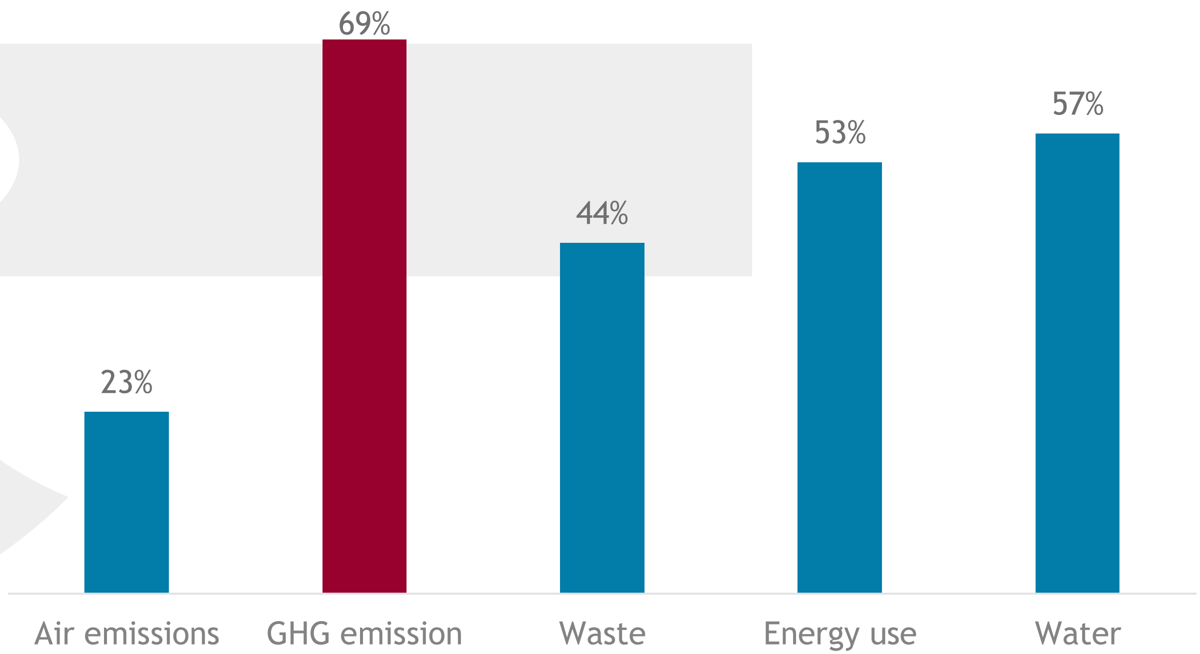
Only

9%

Did the company apply SBTi in target setting?

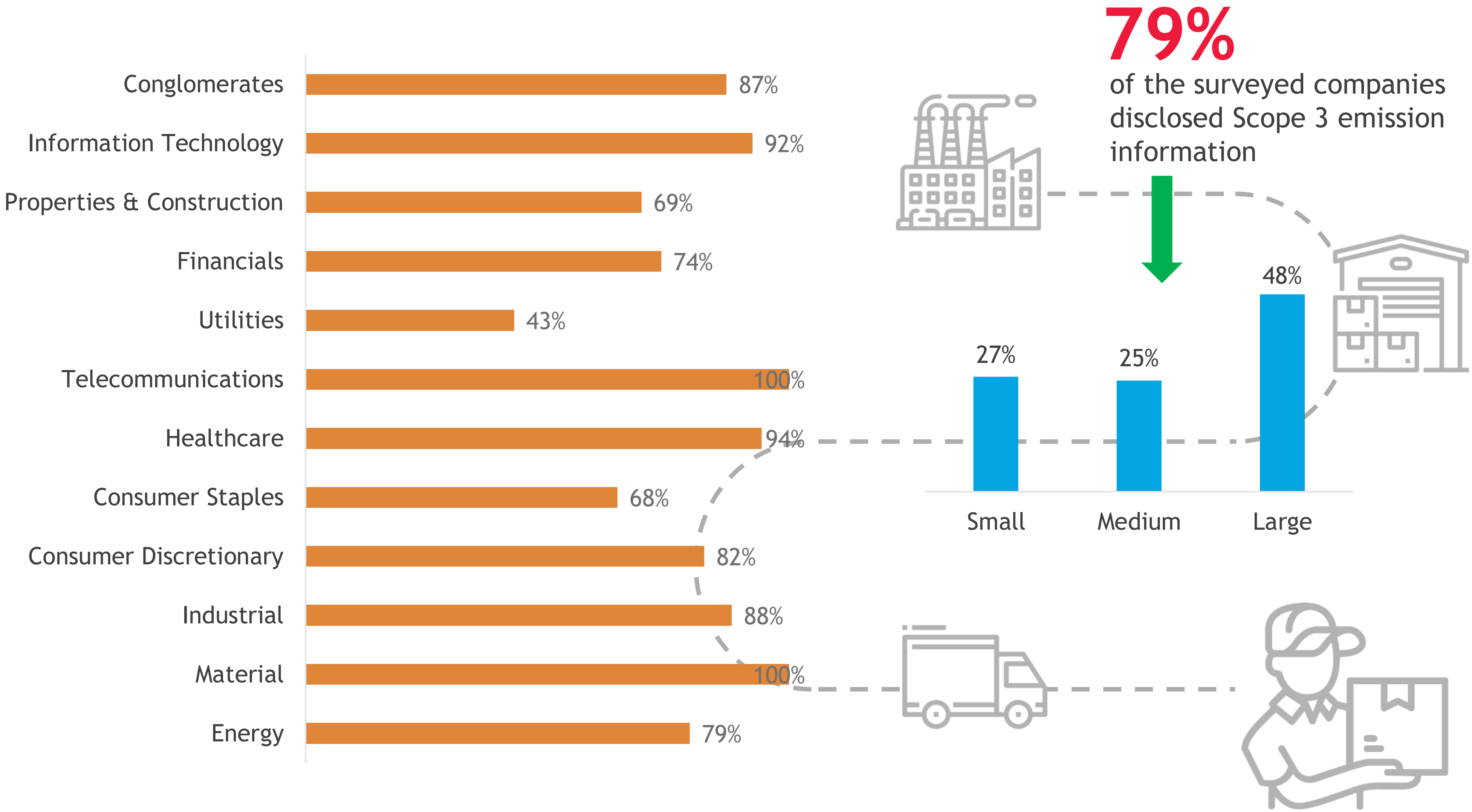
SCIENCE BASED TARGETS

Did the company set measurable environmental and emission targets during the reporting period, in the aspect of:



METRICS AND TARGETS

Large number of companies disclosed scope 3 emission



OTHER HIGHLIGHTS

Reporting framework and assurance

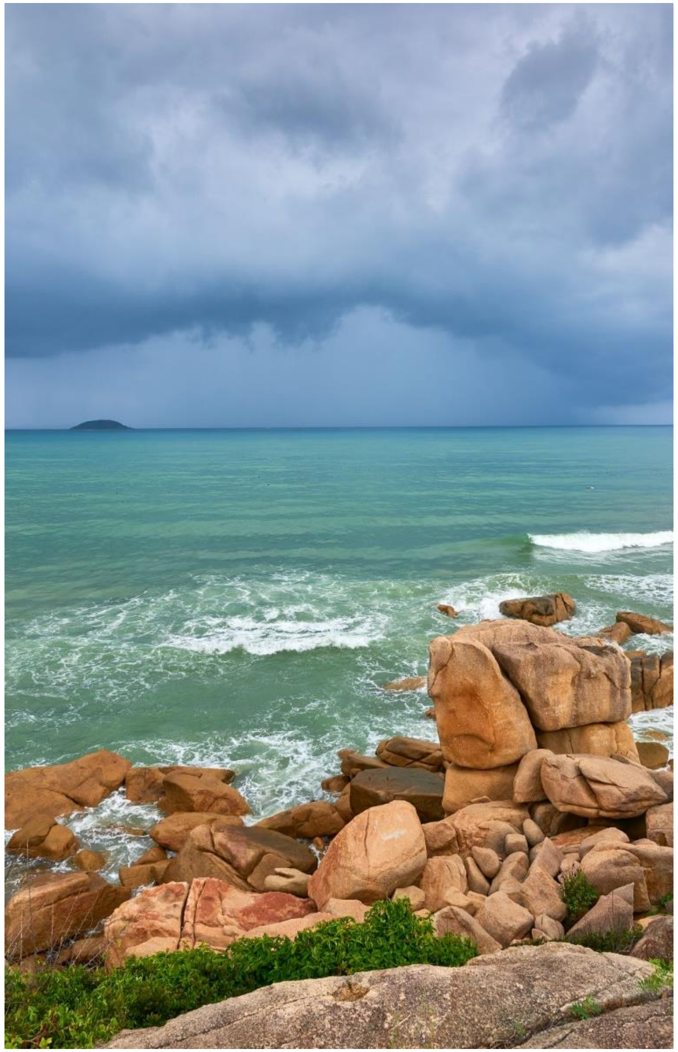
Green finance

Environmental protection and decarbonisation measures

REPORTING

Companies were adopting TCFD recommendations

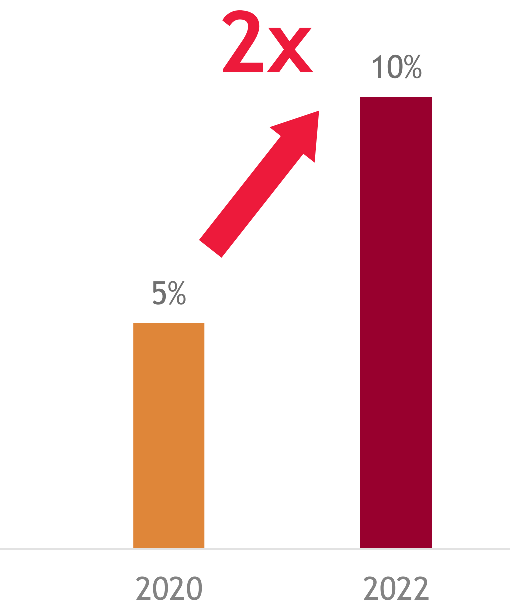
Reporting standards adopted apart from HKEx ESG Reporting Guide:



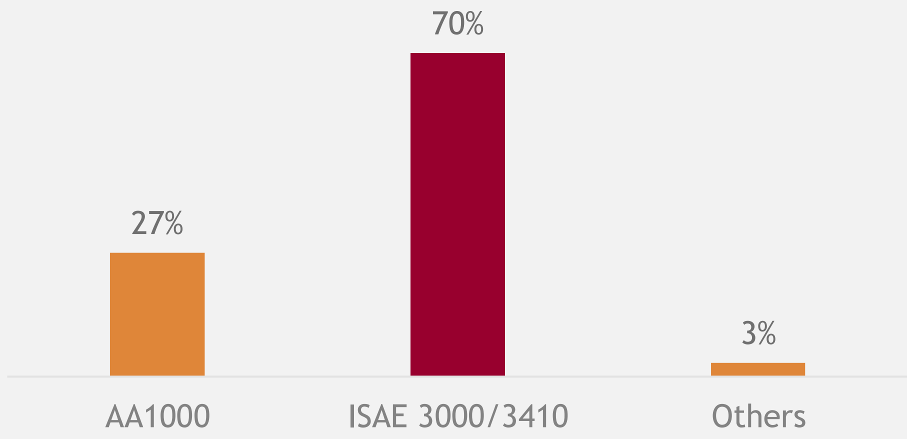
REPORTING

Independent assurance is gaining traction

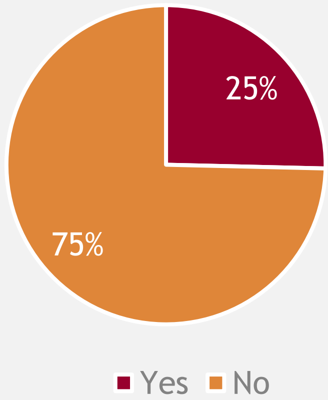
Independent assurance obtained:



Assurance standards applied (out of the 10%):

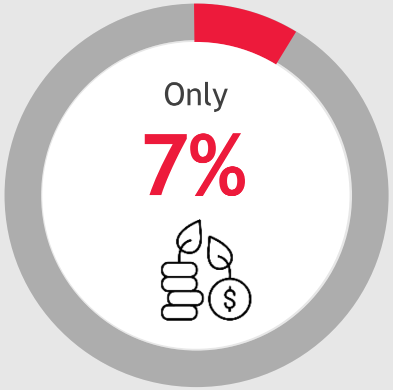


Assurance reports mentioned on conformance with (out of the 10%) International Standard on Quality Control 1 (ISQC-1)



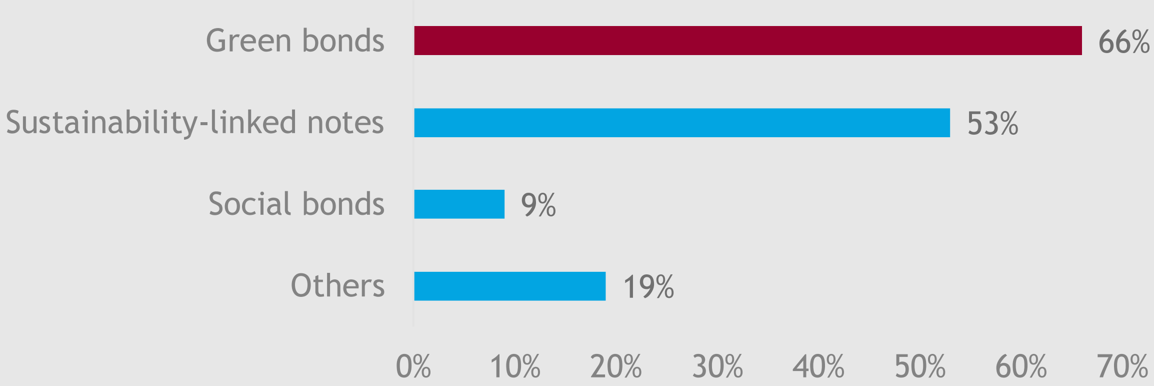
GREEN FINANCE

Not as popular as expected

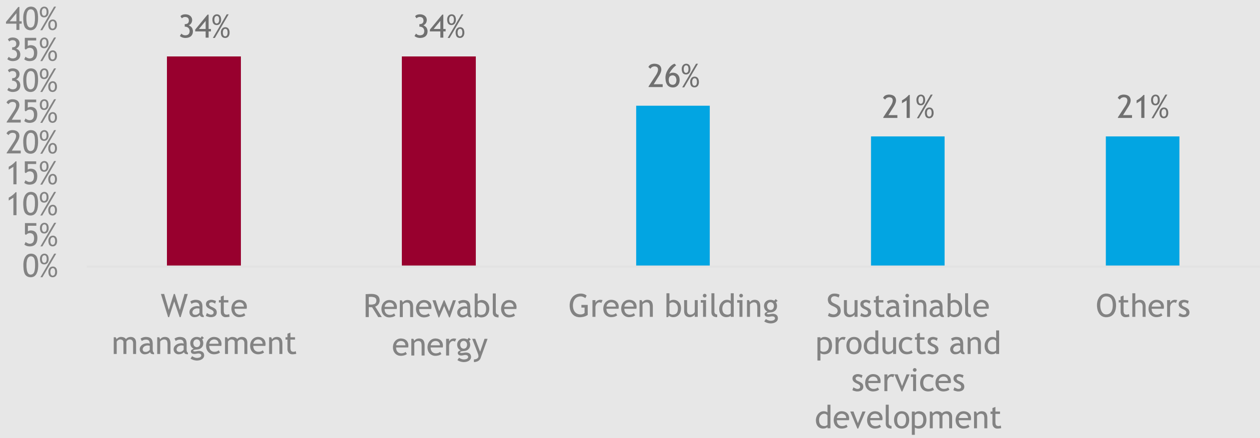


Did the company apply for green finance (issuance of green bond/green loan/ sustainability linked loan)?

What types of green finance were applied? (out of the 7%)

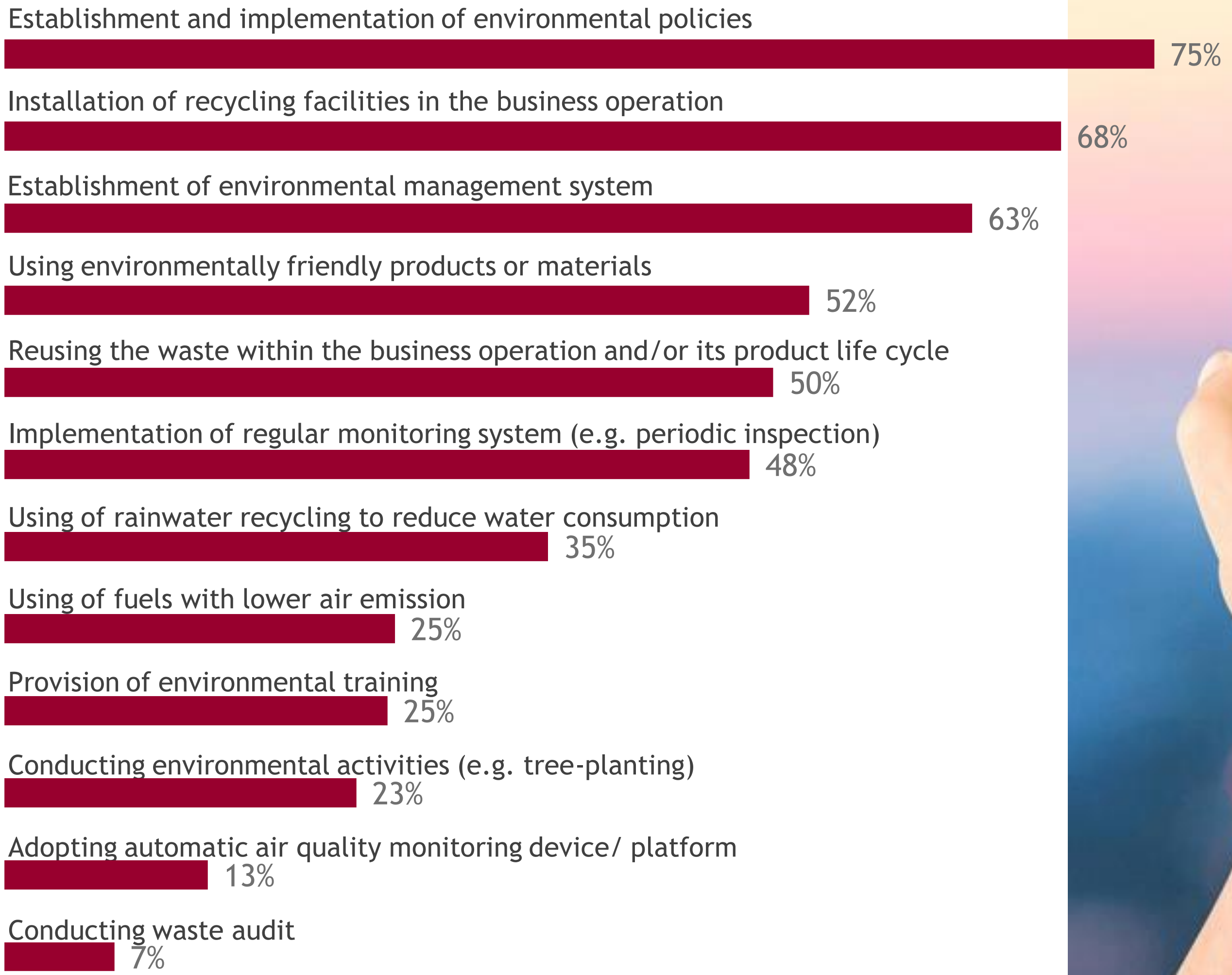


What type of project was financed by green finance? (out of the 7%)



ENVIRONMENTAL PROTECTION MEASURES

Did the company adopt the following approach to attain environmental objectives during the reporting period?



SAVING RESOURCES MEASURES

By what means did the company reduce the use of resources?

75%

Using energy efficient appliance(s)

12%

Conducting energy audit

21%

Monitoring the use of energy consumption pattern

33%

Using water efficient devices/ equipment

11%

Reducing the water consumption

60%

Adopting green office practices

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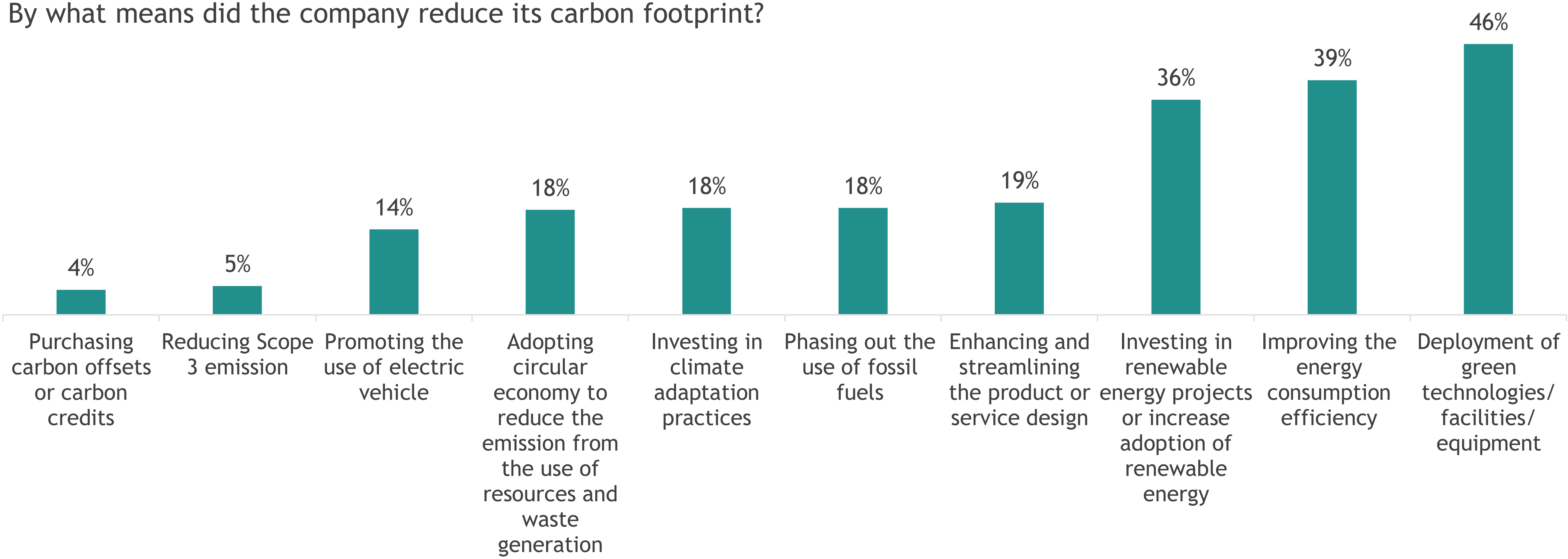
DECARBONISATION MEASURES

By what means did the company reduce its carbon footprint?



KEY TAKEAWAYS

Mandatory disclosure

ESG governance

- Companies are expected to provide more information about the ESG risk management approach and how ESG risks are integrated into the ERM framework

- The board and those charged with governance should ensure that proper mechanism are in place to enable the board to carry out necessary oversight on material ESG matters and risks in an effective manner

Reporting boundary

- The content of the ESG report should cover all material aspects of ESG matters that are having material or may materially impact on the company's operations and businesses. As such, to ensure completeness, the criteria for determining the inclusion of operations or entities should be cleared explained and disclosed in the ESG report

Reporting principles

- Listed companies are expected to clearly disclose how the reporting principles are applied in the ESG report. The relatively low level of disclosure in regard to the consistency principle may affect investors in making meaningful comparison of ESG reported content if they have no idea about the changes in the methods or the KPIs used. Companies should clearly explain on the changes relative to previous year's disclosure

"Listed companies are expected to comply with TCFD recommendations by 2025"

KEY TAKEAWAYS

Climate change

Governance

- Climate change is an evolving matter which may impact the company's business operations and model under different time horizons, the board should ensure that it will have access to climate change related expertise when necessary

- Climate risk-related matters should be a regular agenda item of board meeting such that impact of climate risk, either physical or transition, can be closely monitored and measures can be developed to mitigate the risks in a timely manner

- CEO and C-suites' remunerations are recommended to link with the climate change-related performance metrics such as carbon emission, renewable energy consumed, etc. This will align the interest of C-suites with the company's climate performance and ensure accomplishment of targets set

Strategy

- Companies are recommended to accelerate the integration of net-zero concept into their strategy in addressing stakeholders' concern

- Early adoption of climate scenario analysis would facilitate company to develop mitigating measures to transition to low carbon economy

"International Sustainability Standard Board (ISSB) has recently decided that Scope 3 disclosure will become mandatory in its Standards to be released in 2023"

KEY TAKEAWAYS

Climate change

Risk management

- Managing climate risks and opportunities are critical for companies to transition to low carbon economy and ensure business model being climate resilient in long term. However, the survey results show that survey only 32% of the surveyed companies integrated climate change into their risk management framework and disclosure of climate risks and opportunities were just 48% and 25% respectively

- Besides, only 13% of the surveyed companies considered the climate risks and impact in different time horizon - short, medium and long term. Companies are recommended to thoroughly evaluate and assess the timing of the potential climate risks such that they may be able to formulate appropriate strategies in respond to climate risks in a timely manner

Metrics and targets

- While the HKEx ESG Reporting Guide requires listed companies to separately disclose carbon emission scope 1 and scope 2, companies are recommended to provide breakdown details and explanation of categorizing Scope 3 emission in accordance with the Greenhouse Gas Protocol

- Besides, as stakeholders nowadays are increasingly concerned about whether companies are achieving net-zero by 2050, setting Science Based Targets will enable stakeholders to know whether companies are aligning their climate performance with the goals of the Paris Agreement

- Companies are recommended to obtain independent validation on reported KPIs to enhance data reliability and to avoid green-washing risk

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ESG report assurance is critical nowadays

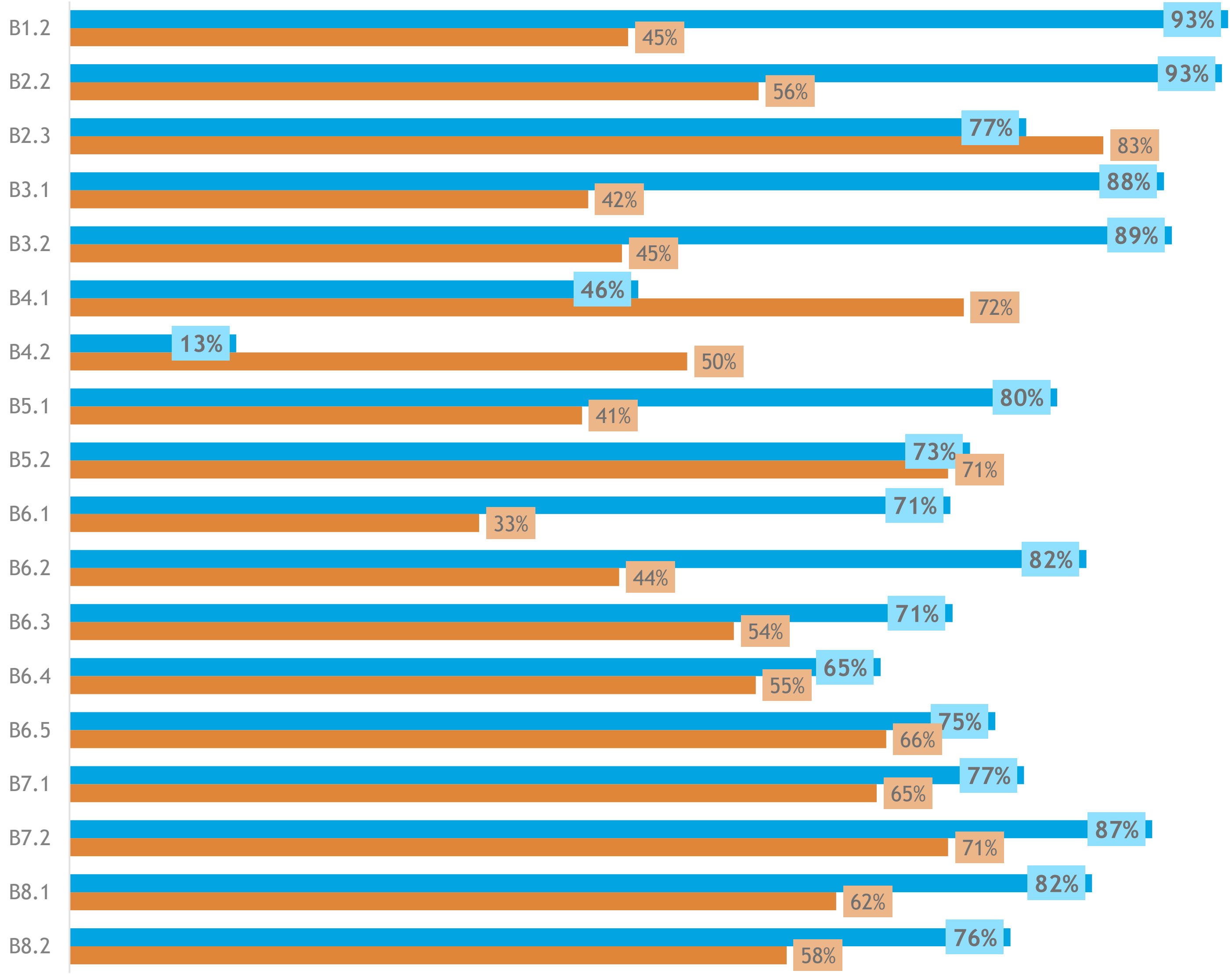
Demands for quality ESG information come from a variety of stakeholders, such as customers, regulators, investors and employees. The benefits of assurance over ESG data are similar to those of a financial audit, providing stakeholders with confidence in the quality of the ESG reporting, as well as providing insight into how an organisation can enhance its related internal processes and controls.

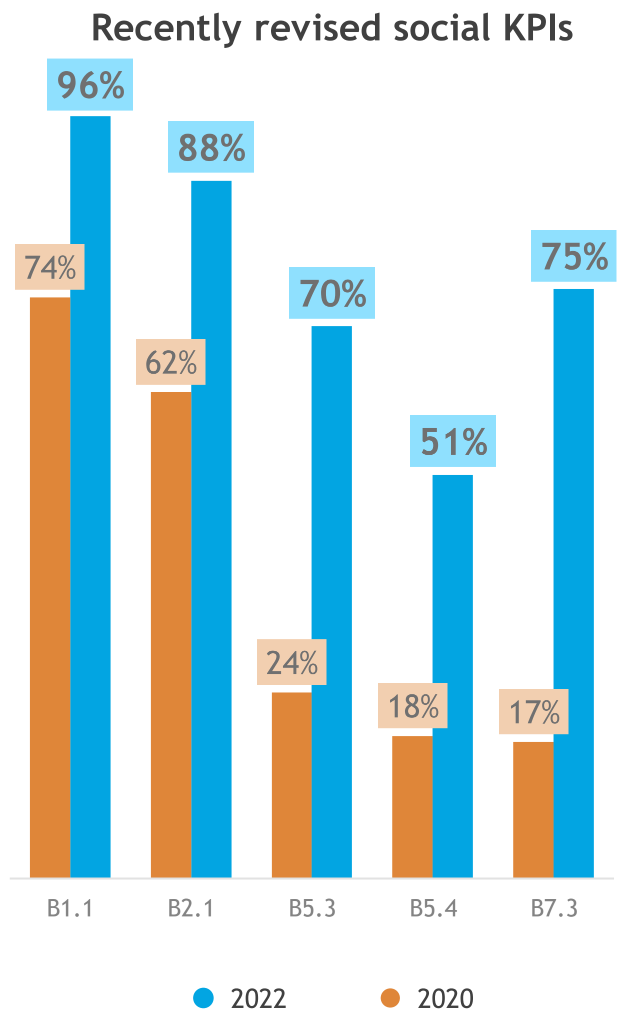
Benefits of obtaining an assurance

- Avoid reputational damage
- Maintain competitiveness
- Meeting customer expectations
- Obtain higher ESG rating or ranking

Appendix

Trend of KPI B Disclosure





HOW BDO CAN HELP

Sustainability / ESG

STRATEGY

- Diagnostics: Materiality, maturity, benchmarking
- Strategy & Roadmap: Integration of sustainability into strategy
- UN SDGs mapping and impact assessment

DISCLOSURE

- Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD)

RISK & RESILIENCE

- ESG and climate risk assessment and scenario analysis
- ESG data analytics advisory

CAPACITY BUILDING

- ESG capability building for Board
- Awareness training

Non-Financial Assurance

- ESG report assurance
- ESG/sustainability due diligence

Low Carbon Pathway

- Greenhouse Gas (GHG) Accounting
- Science-based target setting support
- Scope 3 emission support

Sustainable Supply Chain

- Sustainable supply chain policy, strategy and framework
- Green procurement
- Supply chain ESG assessment and audit

Performance Improvement

- Carbon Disclosure Project (CDP)
- Dow Jones Sustainability Indices (DJSI)

CONTACTS

Ricky Cheng
Director and Head of Risk Advisory
BDO in Hong Kong
Rickycheng@bdo.com.hk

Vivian Chow
Principal of Risk Advisory
BDO in Hong Kong
Vivianchow@bdo.com.hk

Vijo Fok
Principal of Risk Advisory
BDO in Hong Kong
vijofok@bdo.com.hk

BDO Risk Advisory Services Limited

25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Tel: +852 2218 8288
Fax: +852 2543 1051

www.bdo.com.hk

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