



# ESG: A view from the top

*The KPMG, CLP and HKICS Survey  
on Environmental, Social and  
Governance (ESG)*

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# Message from Prof. Mervyn King SC



By the end of the 20th century it was realised that companies and individuals had used natural assets faster than nature was regenerating them. Clearly this was not sustainable.

Also, the focus on increasing the wealth of shareholders cannot overlook the long term and sustainable health of the company. That is, practising quality governance – instead of a mere quantitative profits approach – needs to achieve four outcomes: value creation in a sustainable manner; adequate and effective controls with informed oversight; trust and confidence in the community in which it operates with legitimacy of operations, and an ethical culture with effective leadership.

All these have led to governance codes trending towards a company-centric model rather than a shareholder-centric one. A related development is that regulators, asset owners and professional bodies met and concluded that the time had come for a change in corporate thinking and reporting. This in turn led to the establishment of the International Integrated Reporting Council (IIRC).

The contribution of the IIRC Framework is the application of integrated thinking of the collective mind of the board to how the company makes its money, and in doing so what are its impacts on the three critical dimensions for sustainable development, namely the economy, society and the environment. Of just as great importance is how a company is directed and managed. This is a question of governance.

In practical terms, on an integrated basis the environmental and social issues pertinent to the business of a company should be incorporated into its value creation model contained in its business model. Governance has to be approached on the basis that it should be qualitative and mindful to achieve the four outcomes mentioned above.

In a resource constrained world but with increasing population growth, in line with the integrated approach, regulators have started directing that companies should be reporting on ESG factors. Also, the United Nations Principles of Responsible Investment mean that asset owners and asset managers in the world are studying how companies have dealt with the ESG factors in doing their due diligence on the company. No longer is the due diligence merely a financial one.

The UN Sustainable Development Goals of 2015 reinforces that business is critical to the achievement of sustainable development in the 21st century. They also speak to the indivisible and integrated nature of the economy, society and the environment and that one needs positive impacts on these three in order to achieve sustainable development by 2030.

For all these reasons, it is timely that the HKICS, KPMG China and CLP have seen fit to do a paper on the ESG factors in the running of the business of a company.

**Prof. Mervyn King SC**

Chairman of the International Integrated Reporting Council

# Foreword

Increasing demand from institutional investors to invest in sustainable businesses, coupled with growing public expectations around corporate responsibility,<sup>1</sup> are placing a greater focus on companies to address environmental, social and governance (ESG) concerns that are material to their business. To better understand how business leaders are addressing these concerns and driving ESG development in the region, KPMG China, in association with CLP and the Hong Kong Institute of Chartered Secretaries (HKICS), conducted a survey of more than 200 senior executives of listed companies in Hong Kong.

Interestingly, the survey finds that business leaders acknowledge the value of addressing ESG concerns that are material to their companies, in line with growing evidence that ESG factors contribute to long-term sustainable financial performance.<sup>2</sup> However, many of them have not fully incorporated dealing with material ESG concerns as part of their business practice. This can be attributed to the fact that ESG is still a relatively new field in Hong Kong, so companies will need time to learn how to effectively integrate ESG into their core business.

This report provides recommendations to help companies think holistically about their decision-making processes related to ESG issues. This includes the careful consideration of ESG business strategy, risk management, compliance and performance to achieve long-term value for the organisation.

We hope you find the recommendations in this report helpful as a foundation for effective ESG strategic planning, and would welcome the opportunity to discuss the survey findings and the overall industry landscape.

**KPMG China**

**CLP Holdings Limited**

**The Hong Kong Institute of Chartered Secretaries**



*We would like to thank KPMG China/CLP/HKICS for conducting the ESG survey and producing this research report, which is informative and contains some helpful practical advice on ESG reporting. We are also encouraged that a majority of the business leaders surveyed considered ESG essential or good for business. This survey will hopefully guide businesses to focus on meeting the increasing interest and demand from investors for decision-relevant information in ESG reporting.*

**David Graham**

Head of Listing

Hong Kong Exchanges and Clearing Limited

<sup>1</sup> 'ESG, risk, and return', KPMG International, April 2018, <https://assets.kpmg.com/content/dam/kpmg/be/pdf/2018/05/esg-risk-and-return.pdf>

<sup>2</sup> 'ESG 101: What is ESG Investing?', MSCI, Accessed on 5 June 2018, <https://www.msci.com/esg-investing>

# Executive summary

As a value proposition, the ability of a business to deal with Environmental, Social and Governance (ESG) concerns material to it has a significant impact on its long-term sustainability. Indeed, ESG issues are becoming increasingly important among investors and the broader society. However, companies are moving at different speeds to address ESG concerns material to them in their core business processes. This is influenced by a number of factors, including the board's ESG knowledge, a focus on short-termism, and the availability of ESG tracking. Based on a recent survey of 212 business leaders in Hong Kong on their views on ESG, we highlight five key findings:

01

## Nearly 70 percent of business leaders acknowledge that ESG is essential or good for business as a value proposition.

Nearly 70 percent of surveyed respondents state that addressing ESG concerns is either essential or good for business. This is in line with rising expectations from investors, consumers and other stakeholders. In fact, four times as many respondents say that ESG-focused companies have a higher value than their competitors, compared to those who say that ESG-focused companies tend to have a lower value.

02

## Only 37 percent of business leaders have integrated ESG issues into their strategic planning, indicating that ESG is still a peripheral issue for some companies.

Despite general acknowledgement that addressing ESG concerns is essential or good for businesses, ESG seems to be a peripheral issue for many businesses in practice. Given that ESG is still a relatively new field in Hong Kong, only 37 percent of respondents believe that ESG has been integrated into strategic planning. The majority of companies do not have the management of ESG concerns strategically integrated as part of their core business or central corporate thinking – on strategy, risk, reputation, operations and efficiency and long-term performance. This is understandable as most companies are still at an early stage in their ESG journey, and will need time to learn how to fully integrate ESG into their core business strategy.

03

## Three key barriers are affecting more than one-third of the surveyed business leaders.

The surveyed business leaders highlight that the greatest barriers in addressing ESG concerns are: limited ESG knowledge and expertise; weak or unclear association between ESG issues and their impact on business; and limited expected short-term/immediate returns. At different levels within a company – from the board to management and functions responsible for ESG initiatives – having sufficient ESG knowledge is necessary to oversee, manage and evaluate ESG strategies and performance. It appears that short-termism is hindering companies from integrating ESG issues into core business operations for long-term value creation in terms of business sustainability.

04

## Effective ESG issue tracking and communication to the board is the top focus area for improving board oversight of future ESG development.

With investors and the public increasingly demanding ESG performance, the board plays an important role in driving their companies' ESG development. Forty-three percent of surveyed business leaders expect an increase in investment in the next three years to improve their company's tracking of ESG issues and related communication to the board.

05

## Business leaders see the benefits of addressing ESG issues, but may have overlooked some long-term benefits relating to value creation.

Enhanced corporate reputation, improved operational efficiency and better risk management are the main benefits of ESG identified by the respondents. However, other long-term value created by ESG activities – such as driving growth and innovation and strengthening competitive advantages – may have been overlooked or missed.

To address the key findings, we propose five key recommendations for business leaders to integrate and drive further ESG development within their companies:

01

**Developing a purposeful culture** is important to driving ESG efforts and aligning ESG vision and principles within a company. Such a culture should be set from the top and cascade through all levels of the organisation.

02

Business leaders should clearly **articulate the value proposition of ESG** relevant to their organisations. They should also reinforce the importance of addressing ESG concerns material to their organisations for the long-term sustainability of business operations as a competitive advantage. The link between sustainability and long-term value creation should be clearly articulated and communicated within the organisation.

03

Incorporating ESG issues into the business is integral to its long-term sustainability. There is a learning curve related to ESG, which is seen as a relatively new field by many companies in Hong Kong. As ESG continues to evolve, business leaders should **integrate ESG into their business** through awareness building, strategic planning, policy making, risk management, metric setting and tracking and communications. The integration process should be supported by **effective board oversight**, which is a key imperative in the ESG journey. The board should focus on the strategically significant ESG issues identified and monitor ESG performance against the goals set. Regular communication on ESG issues to the board is also essential.

04

**Effective communication with both internal and external stakeholders** is vital to delivering the company's commitment to long-term value creation. It is essential to communicate the right things and in the right way with stakeholders to foster a meaningful relationship with them.

05

**Developing capacity around ESG issues** should be a priority for companies. It is not only essential for those responsible for implementing ESG strategies, but also for top management as the key driving force of an organisation.

ESG issues continue to redefine the role of companies in society, and need to be addressed. We hope our recommendations can be an essential guide to help businesses achieve better ESG performance in the long term.

## Acknowledgements

Special thanks are given to the Hong Kong Investor Relations Association and The Hong Kong Independent Non-Executive Director Association for their help in distributing the survey through their networks.

# Key findings

## ESG is largely:



An essential part of a company because of the business's dependence on environmental and social resources for success

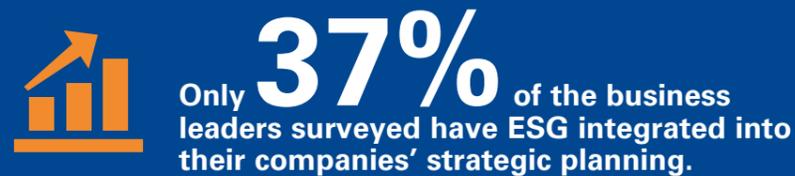


Attracting investors seeking long-term sustainable value to their investments, and therefore good for business

## Business leaders think ESG-focused companies:



However, **23%** say that there is no clear correlation between ESG performance and competitive advantage



## In the next 3 years:

Main investment area to improve board oversight of ESG issues:



Main investment areas to improve ESG development:



Risk management system that captures ESG risks and opportunities

Governance structure and mechanism for ESG

## ESG learning curve:



## Benefits of increasing companies' focus on ESG issues:

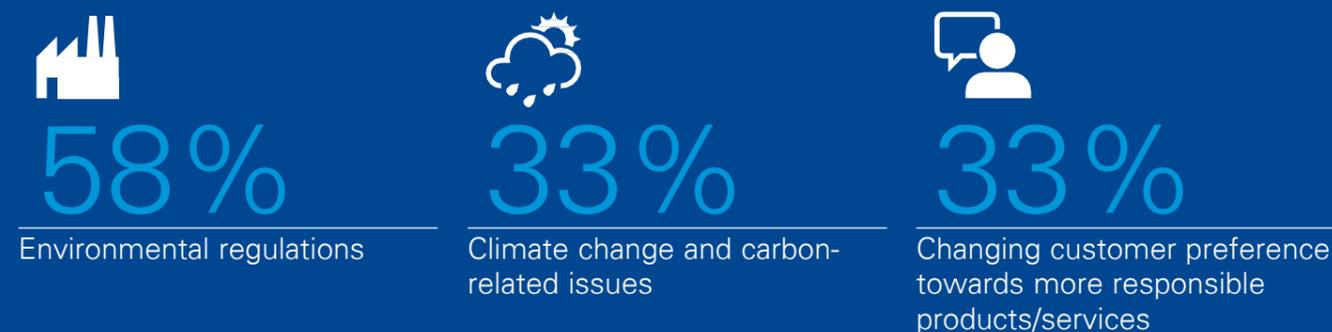


**60%** of respondents think that their companies' business will be significantly affected by ESG issues within the next five years.

## Three key barriers to addressing ESG issues faced by surveyed business leaders:



## ESG issues that will affect the business in the next five years:



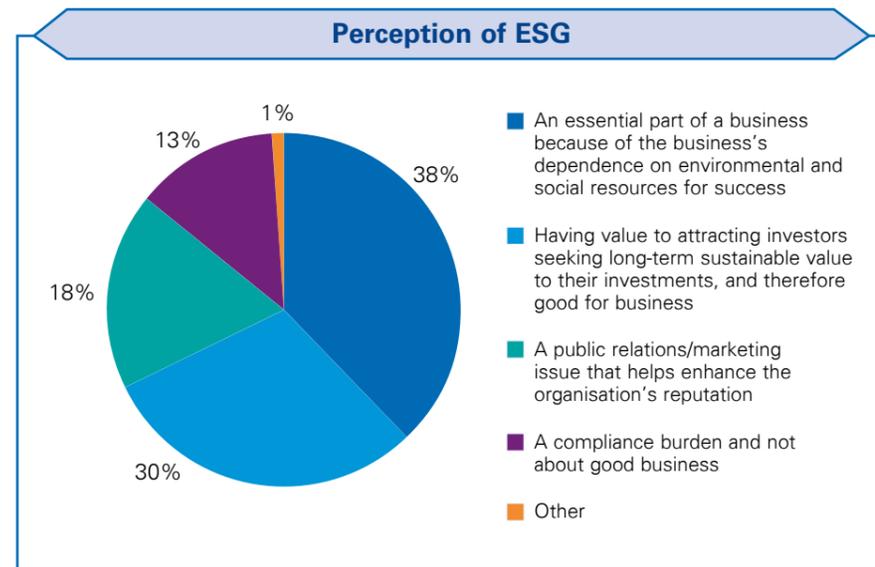
## Our five key recommendations:

- 1. Develop a purposeful culture for ESG**
- 2. Articulate the value proposition of ESG**
- 3. Integrate ESG into the business with effective board oversight**
- 4. Effectively communicate with stakeholders**
- 5. Build capacity around ESG issues**

**Key message 1**

# Perception of ESG

Nearly 70 percent of business leaders acknowledge that ESG is essential or good for business.

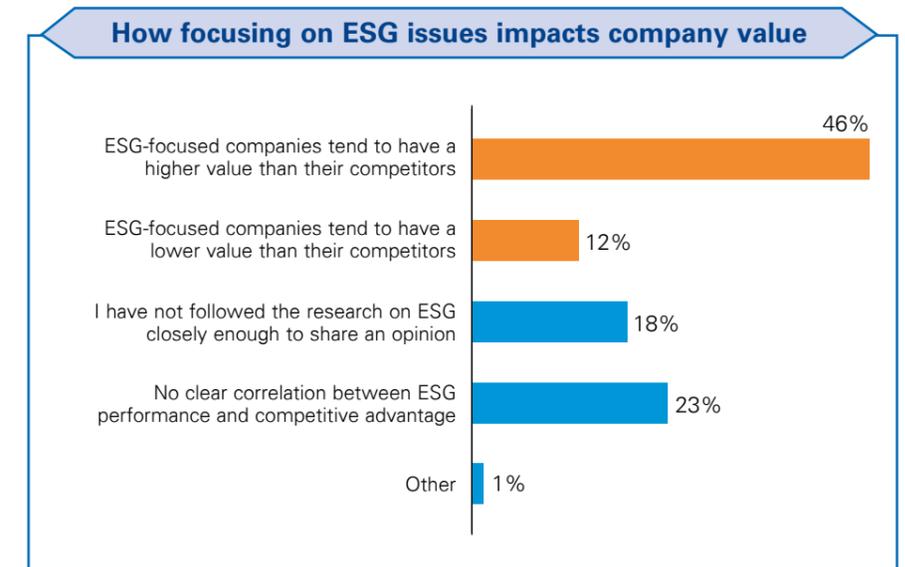


Source: KPMG China analysis

Nearly 70 percent of respondents say that ESG is either essential or good for business. About 38 percent of respondents think ESG is essential as business success depends on environment and social resources, while 30 percent note that ESG is good for business as it has value in attracting investors seeking long-term sustainable investments.

In Hong Kong, following the release of the revised ESG Reporting Guide (the Guide) by Hong Kong Exchanges and Clearing Limited (HKEX) in December 2015, HKEX listed companies are required to publish their ESG information annually and report on 'comply or explain' provisions set out in the Guide. While we see some listed companies reporting on ESG information simply to fulfil the compliance requirements, more companies are becoming aware of the business impact as a result of ESG issues, and are expected to continue to improve their ESG performance and reporting standards over time.<sup>3</sup>

There is a clear and increasing global trend of large companies including ESG information in their annual financial reports. While just 44 percent of the world's top companies (G250) included ESG information in their annual reports in 2011,<sup>4</sup> this has increased significantly to 78 percent of the G250 companies in 2017, indicating that there is a growing understanding that ESG data is both relevant and important for their investors.



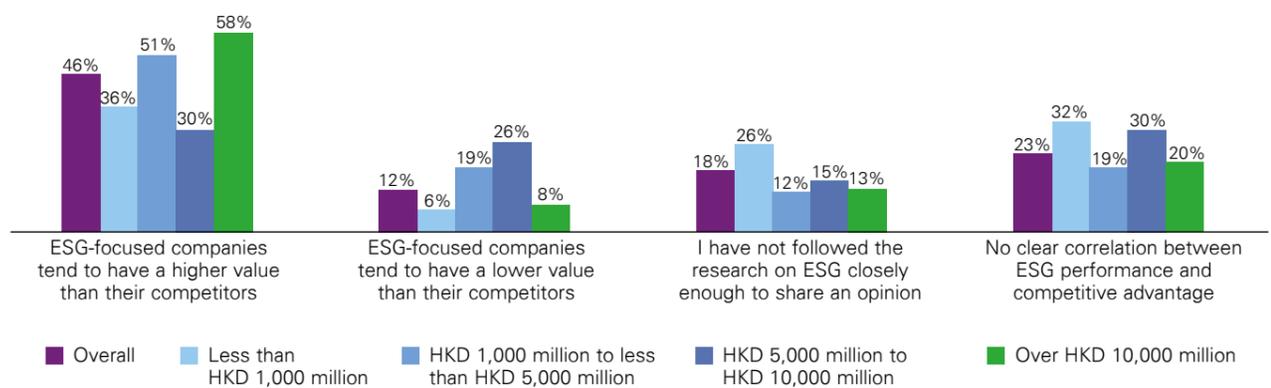
Source: KPMG China analysis

About 46 percent of respondents say that ESG-focused companies tend to have a higher value than their competitors. The business leaders of large companies (with a market capitalisation of over HK\$10,000 million) tend to see a correlation between ESG performance and competitive advantages. Over half (58 percent) of these large companies surveyed think ESG-focused companies outperform those that do not focus on ESG.

<sup>3</sup> 'The ESG journey begins', KPMG China, November 2017, <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2017/11/the-esg-journey-begins.pdf>

<sup>4</sup> 'The Road Ahead, The KPMG Survey of Corporate Responsibility Reporting 2017', KPMG International, October 2017, <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf>

### How focusing on ESG issues impacts company value (view by market capitalisation)



Source: KPMG China analysis

A number of studies have found that strong ESG performance can create a number of competitive advantages including a more stable investor base, lower cost of capital and better access to financing, improved employee engagement and customer loyalty. These benefits are vital to the companies seeking to create long-term value and strengthen their corporate performance.<sup>5</sup> In addition, according to the KPMG Audit Committee Institute’s interview with Harvard Business School Professor George Serafeim, there is strong evidence showing that ESG issues are significant value drivers, with the strategic importance of those issues varying greatly by company and by industry.<sup>6</sup>

However, just under a quarter of respondents think there is no clear correlation between ESG performance and competitive advantages, while 18 percent of respondents have not followed the research on ESG closely enough to express an opinion. This could be associated with the barriers faced by the business leaders, which are explored in more detail later in this report.

<sup>5</sup> 'ESG, risk, and return', KPMG International, April 2018, <https://assets.kpmg.com/content/dam/kpmg/be/pdf/2018/05/esg-risk-and-return.pdf>

<sup>6</sup> 'Sustainability issues move from the periphery', KPMG US, 2016, <https://boardleadership.kpmg.us/content/dam/blc/pdfs/2016/sustainability-issues-move-from-the-periphery-board-perspectives.pdf>



*ESG reporting should not be regarded as only a compliance matter, and ESG issues should not be perceived solely as components of risk management. Instead, ESG issues should also be evaluated through the lens of value creation for identifying opportunities and risks and therefore help drive the long-term sustainability of a business. Other stakeholders are also becoming more demanding about companies’ ESG information, which enables them to appreciate the direction and performance of a business.*

*As a result, we are seeing greater potential for assurance, which promotes the reliability of ESG information. We believe that stakeholders’ expectations around good governance is one of the key drivers behind the growth in assurance of ESG information. We expect that this growing trend will continue as a result of increasing awareness and recognition of ESG value creation.*

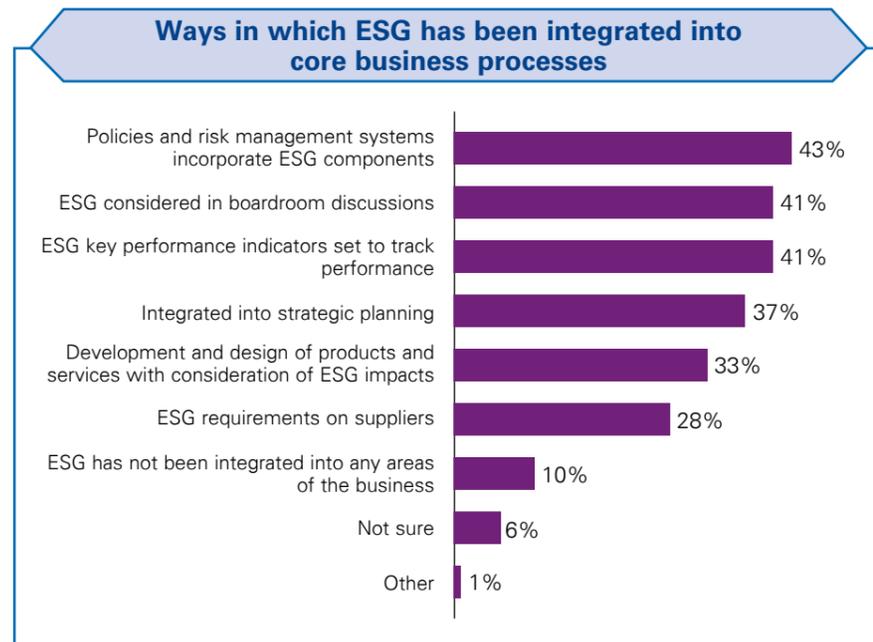
**David Ko**  
Vice Chairman and Head of Audit  
KPMG China



Key message 2

# ESG integration

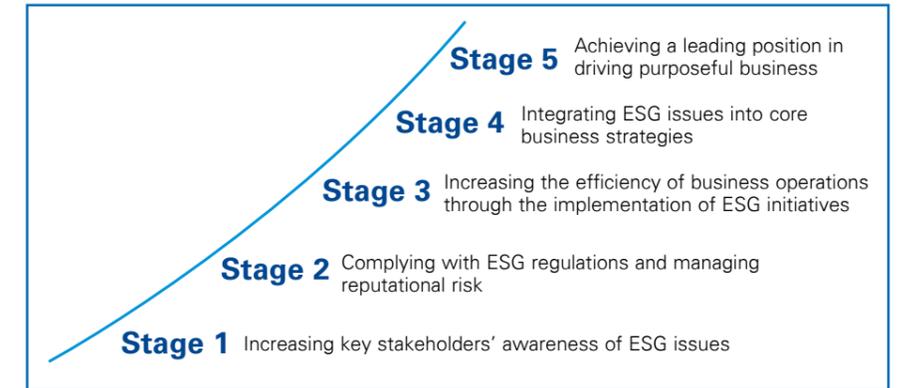
Only 37 percent of business leaders have integrated ESG issues into their strategic planning, indicating that ESG is still a peripheral issue for some companies.



Source: KPMG China analysis

About 83 percent of respondents say that their companies have some ESG components in their core business processes. However, only 37 percent of respondents note that ESG has been integrated into strategic planning, indicating that this is an area with plenty of room for development.

As ESG is still a relatively new field in Hong Kong, we observe that companies are at different points along the ESG learning curve, which can be broadly divided into five stages (in terms of ESG maturity):



While only 37 percent of respondents say that ESG has been integrated into strategic planning, it is reasonable to suggest that most companies surveyed are currently at Stage 2 or 3, with fewer companies at Stage 4 or beyond. Given that mandatory ESG reporting requirements for general disclosure and environmental key performance indicator (KPI) disclosures were enacted within the past two years – which are still at an early development stage – it is understandable that it will take time for companies to move further along the ESG learning curve and integrate ESG issues into their core business strategies.

The survey findings show that ESG issues are still generally viewed as peripheral instead of being integrated into core business strategies. In fact, less than half of the respondents have developed policies and risk management systems that incorporate ESG components (43 percent), while only 41 percent of respondents have tracked their ESG KPIs. All listed companies are in fact expected to track and disclose their environmental KPIs given that ESG reporting requirements on environmental KPI disclosures became mandatory for listed companies since the financial year starting on or after 1 January 2017.<sup>7</sup>

As ESG maturity continues to grow among companies, sustainability (or ESG) issues create significant opportunities and risks for businesses, and should therefore be integrated into their strategy-setting process and risk management. For companies, 'sustainability' refers to the creation of economic value with the consideration of the interests of various stakeholders, including employees, customers, local communities and the environment.<sup>8</sup> Research by Harvard Business School Professor George Serafeim<sup>9</sup> shows that boards need to understand how the viability of their companies' business model is affected by societal and environmental changes.

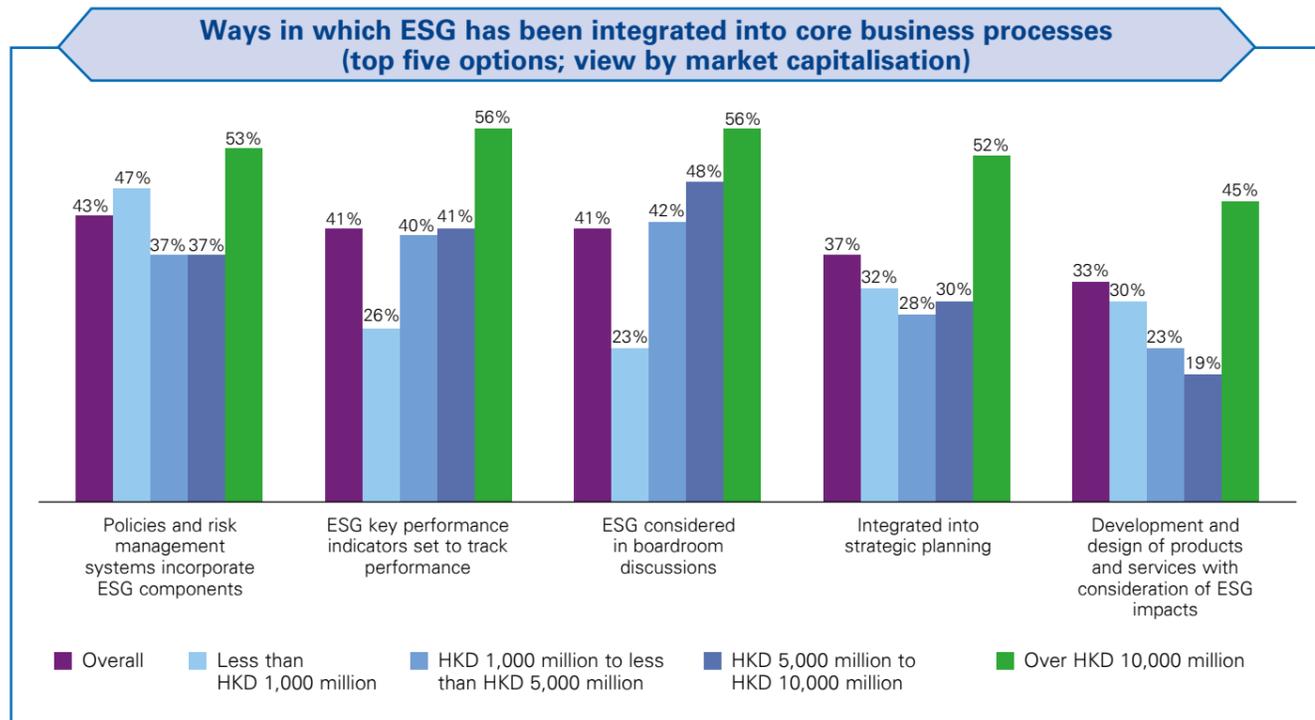
The actions needed to address a diverse set of ESG issues by companies involve integrating the most important ESG issues into business strategies, tracking the right KPIs, incentivising management using those metrics, and communicating performance improvements to different stakeholders. Companies are also required to change from a "business-as-usual" approach to achieve such integration, which entails potential disruption, trade-offs and an innovative culture.<sup>10</sup>

<sup>7</sup> 'Exchange to strengthen ESG Guide in its listing rules', The Stock Exchange of Hong Kong Limited, 21 December 2015, [http://www.hkex.com.hk/news/news-release/2015/151221news?sc\\_lang=en](http://www.hkex.com.hk/news/news-release/2015/151221news?sc_lang=en)

<sup>8</sup> 'Beyond the Balance Sheet: IFC Toolkit for Disclosure and Transparency', January 2018, International Finance Corporation, [https://www.ifc.org/wps/wcm/connect/7c42d300-2db8-4fc4-96ce-e081cd838b80/Beyond\\_The\\_Balance\\_Sheet\\_Jan\\_19\\_2018.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/7c42d300-2db8-4fc4-96ce-e081cd838b80/Beyond_The_Balance_Sheet_Jan_19_2018.pdf?MOD=AJPERES)

<sup>9</sup> 'Sustainability issues move from the periphery', KPMG US, 2016, <https://boardleadership.kpmg.us/content/dam/blc/pdfs/2016/sustainability-issues-move-from-the-periphery-board-perspectives.pdf>

<sup>10</sup> 'ESG, risk, and return', KPMG International, April 2018, <https://assets.kpmg.com/content/dam/kpmg/be/pdf/2018/05/esg-risk-and-return.pdf>



Source: KPMG China analysis

Looking at companies by market capitalisation, large companies (with a market capitalisation of over HK\$10,000 million) tend to have more integrated ESG systems and policies compared to smaller companies. Larger companies also typically have more resources and a greater understanding of ESG issues, allowing them to develop ESG policies and systems in a more integrated way. Many of these companies have implemented sustainability initiatives for several years.

From the investors' perspective, studies have shown that an increasing number of institutional investors recognise ESG factors as drivers of value while emphasising the importance of ESG issues to corporate performance. They also believe that integrating ESG factors into the investment process can help them make more effective investment decisions by strengthening their risk management and aligning investment strategies with the priorities of stakeholders.<sup>11</sup> Combining the benefits of incorporating ESG issues into corporate performance and the importance of ESG performance to institutional investors delivers a strong message that ESG issues should be a priority for companies. Investors will assess companies on how well they manage their ESG issues as an indicator of their ability to run their business and maintain financial sustainability.<sup>12</sup>

In China, pollution control has been identified as one of the "three tough battles" for achieving high-quality growth from 2018 to 2020, along with major risk prevention and targeted poverty alleviation.<sup>13</sup> China has been tightening its environmental regulations in the face of significant pollution problems in the country. This resonates with our finding that 'environmental regulation' is considered the top ESG issue that a majority of respondents (58 percent) think will affect their business in the next five years, followed by 'climate change and carbon-related' issues (33 percent).

<sup>11</sup> 'McKinsey: ESG No Longer Niche as Assets Soar Globally', Institutional Investor, 27 October 2017, <https://www.institutionalinvestor.com/article/b15cc1dxds8k97/mckinsey-esg-no-longer-niche-as-assets-soar-globally>

<sup>12</sup> 'ESG, risk, and return', KPMG International, April 2018, <https://assets.kpmg.com/content/dam/kpmg/be/pdf/2018/05/esg-risk-and-return.pdf>

<sup>13</sup> 'Spotlight: China's new economic priorities expected to sustain growth', Xinhuanet, 29 December 2017, [http://www.xinhuanet.com/english/2017-12/29/c\\_136860133.htm](http://www.xinhuanet.com/english/2017-12/29/c_136860133.htm)



Source: KPMG China analysis

The recent State Council reforms saw a shift in China's environmental regulatory landscape, from focusing on approving new industrial developments with minimal monitoring of environmental compliance, to executing supervision measures to ensure operational compliance.<sup>14</sup> In June 2018, the government announced it would expand environmental inspections to more cities and regions in a new round of checks until 2019 as part of its anti-pollution plan.<sup>15</sup>

With more stringent environmental regulations and monitoring by the government, enterprises are more exposed to greater legal responsibilities and liabilities. Therefore, it is particularly important for companies to integrate ESG issues into their strategic planning and their core business operations.

Companies should adopt a self-management approach to comply with regulatory requirements – with minimal instructions from the government – and reassess how environmental compliance is managed and monitored.<sup>16</sup> Companies should also manage the ESG risks associated with their business operations and supply chains, given that the suspension and closure of polluting facilities may give rise to supply chain risks and disrupt normal business operations.<sup>17</sup>

<sup>14</sup> 'ERM Insights: Comply or Close- the New Reality for Industrial Facilities in China', ERM, December 2017, <https://www.erm.com/globalassets/documents/publications/2017/comply-or-close-the-new-reality-for-industrial-facilities-in-china.pdf>

<sup>15</sup> 'China to launch broader environmental inspections this month', Reuters, 9 June 2018, <https://www.reuters.com/article/us-china-pollution/china-to-launch-broader-environmental-inspections-this-month-idUSKCN1J506F>

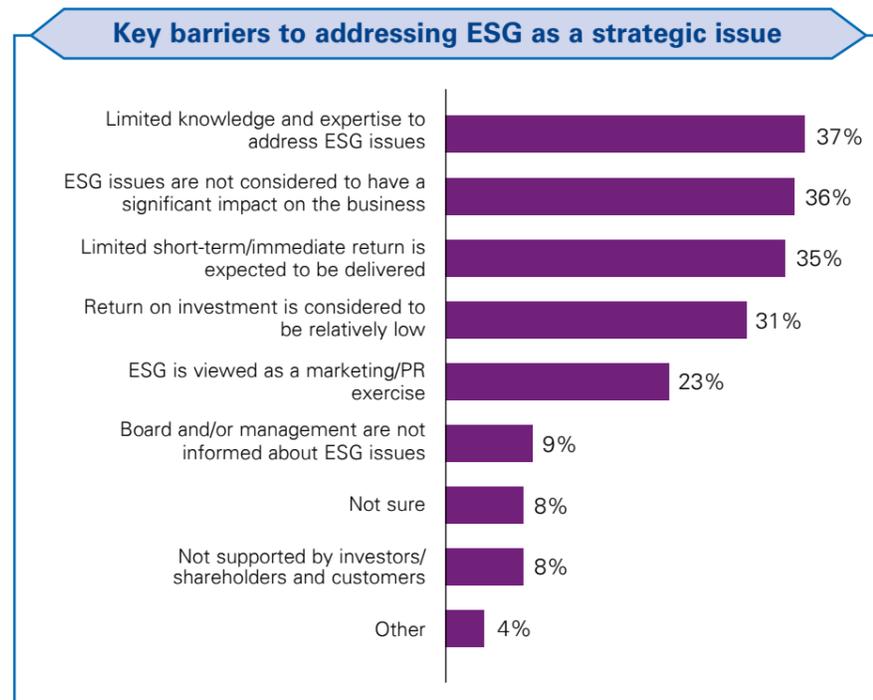
<sup>16</sup> 'GPS Manufacturing Quarterly: China's Environmental Regulatory Tightening', The American Chamber of Commerce in Shanghai, May 2018, <https://www.amcham-shanghai.org/sites/default/files/2018-06/GPS%20Manufacturing%20Quarterly%20%28May%202018%29.pdf>

<sup>17</sup> 'ERM Insights: Comply or Close- the New Reality for Industrial Facilities in China', ERM, December 2017, <https://www.erm.com/globalassets/documents/publications/2017/comply-or-close-the-new-reality-for-industrial-facilities-in-china.pdf>

Key message 3

# Key barriers

Three key barriers are affecting more than one-third of business leaders.



Source: KPMG China analysis

Thirty-seven percent of respondents say that limited ESG knowledge and expertise is the greatest barrier to addressing ESG issues within their companies. Since 1 January 2016, HKEX has required all Hong Kong listed companies to publish an annual ESG report. Over the past two years, awareness has continued to grow. However, development is still at an early stage with some companies still adopting a box-ticking approach to ESG reporting.<sup>18</sup> Some companies may lack the necessary knowledge or a strong intention to address ESG issues as some still treat ESG reporting as a compliance exercise.

<sup>18</sup> 'The ESG journey begins', KPMG China, November 2017, <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2017/11/the-esg-journey-begins.pdf>

On the other hand, if companies are determined to change from viewing ESG as a non-core issue to integrating them into their business operations and strategies to seize potential opportunities, they may need to acquire new knowledge and skill sets, recruit professionals where relevant and possible, set up an ESG working group and develop the right KPIs for performance tracking.<sup>19</sup>

With regards to board composition, an important question for the boards of all companies is whether they have directors with the right knowledge and expertise to understand ESG risks and opportunities, and oversee how management is handling these issues.<sup>20</sup> In some cases, the investors may call for certain companies to have "climate competent" boards. Depending on the business, the board should consider including ESG expertise as one of the criteria for selecting members. This will benefit the board through continuous learning about the key ESG issues.<sup>21</sup>

Thirty-six percent of respondents say that ESG issues are not considered to have a significant impact on the business, which is the second key barrier facing business leaders. This finding could be associated with some business leaders' limited knowledge on how ESG issues relate to the business and how to address them, hampering them from realising the long-term value of implementing ESG initiatives.

To help fight pollution, China implemented the Environmental Protection Tax Law (EPTL), which took effect on 1 January 2018. This is the first tax specifically aimed at strengthening pollution control and protecting the environment. It replaced the original Pollutant Discharge Fee (PDF) and helped establish a green taxation system that enhances pollution control. The tax targets enterprises and public institutions that discharge listed pollutants directly into the environment, requiring them to pay tax for producing air and water pollutants, noise and solid waste.<sup>22</sup> The tax is considered to have had a significant impact on business operations, especially on manufacturers and other relevant business operators.<sup>23</sup>

Companies that have professional environmental management knowledge, resources and systems are better positioned to adapt to regulatory changes and meet compliance requirements. Under the EPTL, companies are driven to upgrade their internal environmental management systems and technologies to reduce their emissions of pollutants. Companies should also advance their ESG knowledge, from environmental policy and regulations and taxation, to technologies and management systems.

In addition, 35 percent of respondents say that another barrier is that limited short-term/immediate returns are expected to be delivered by ESG. Addressing ESG issues as a key to long-term business sustainability is often hindered by short-termism – the focus on short-term financial returns over long-term, sustainable growth. This could be explained by pressure to deliver short-term results driven by some investors, and reinforced by quarterly earnings reports to investment vehicles valued daily or monthly. However, as the connection between ESG and Return on Investment (ROI) is becoming clearer, we are seeing more institutional investors becoming vocal about ESG issues and following a long-term value approach to their investment decisions.

<sup>19</sup> 'ESG, risk, and return', KPMG International, April 2018, <https://assets.kpmg.com/content/dam/kpmg/be/pdf/2018/05/esg-risk-and-return.pdf>

<sup>20</sup> 'Boards and sustainability: Three best practices', Heidrick & Struggles, 2017, [http://www.heidrick.com/-/media/Publications-and-Reports/Boards\\_and\\_sustainability\\_Three\\_best\\_practices.ashx](http://www.heidrick.com/-/media/Publications-and-Reports/Boards_and_sustainability_Three_best_practices.ashx)

<sup>21</sup> 'ESG, strategy, and the long view', KPMG International, 2017, <https://assets.kpmg.com/content/dam/kpmg/lu/pdf/lu-en-esg-strategy-framework-for-board-oversight.pdf>

<sup>22</sup> 'China starts collecting environmental tax', Xinhuanet, 1 January 2018, [http://www.xinhuanet.com/english/2018-01/01/c\\_136865174.htm](http://www.xinhuanet.com/english/2018-01/01/c_136865174.htm)

<sup>23</sup> 'Environmental Protection Tax Law', European Chamber, 3 January 2017, [http://www.europeanchamber.com.cn/en/working-group-news/2519/environmental\\_protection\\_tax\\_law](http://www.europeanchamber.com.cn/en/working-group-news/2519/environmental_protection_tax_law)



*CLP believes that, over time, a company can only survive if it conducts its business in a manner which is consistent with the legitimate interests and well-being of the communities in which it operates, not just those of its shareholders. To achieve that requires good governance and due regard to be paid to the environmental and social impact of business decisions and the sustainability of business models. This survey and report offers some valuable insights and practical recommendations on how to address these issues. We hope it will assist businesses to move along the ESG learning curve from compliance to the integration of ESG issues into the core business and beyond.*

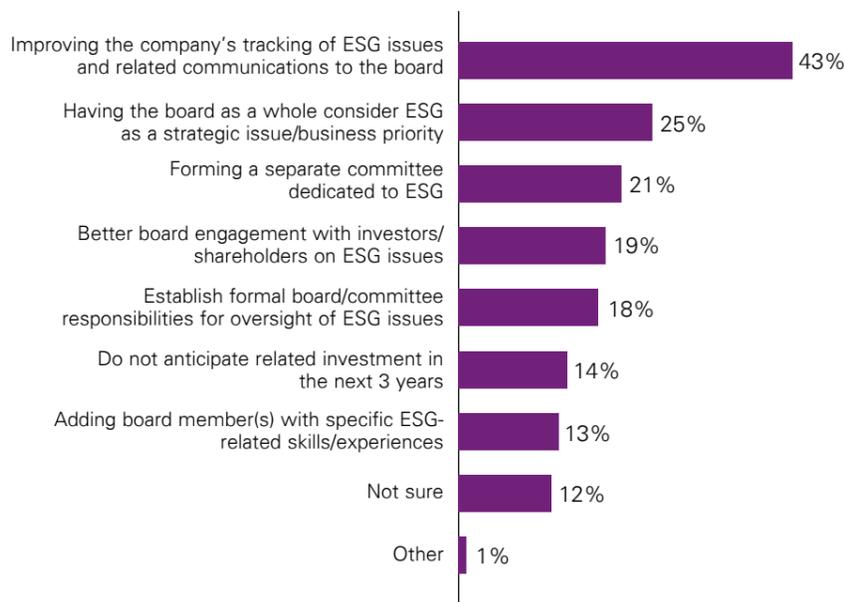
**David Simmonds FCIS FCS**  
Group General Counsel & Company Secretary  
CLP Holdings Limited

**Key message 4**

# Board involvement

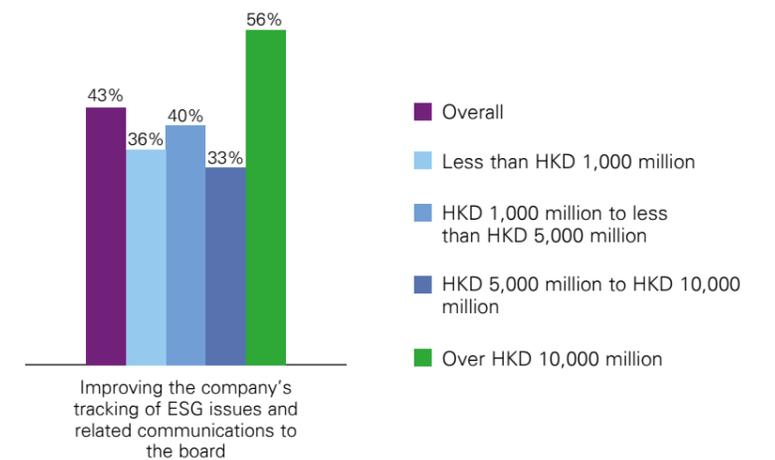
Effective ESG issue tracking and communication to the board is the top focus area for improving board oversight of future ESG development.

**Expected investment areas in the next three years to improve board oversight of ESG issues**



Source: KPMG China analysis

**Expected investment in the next three years to improve board oversight of ESG issues (view by market capitalisation)**



Source: KPMG China analysis

Currently, companies and boardroom discussion are moving at different speeds in addressing ESG issues. Boards play an important role in driving ESG development within their companies, and board oversight on ESG issues can help businesses better manage their ESG-related risks and opportunities. The survey results find that 43 percent of respondents expect to increase their investment in improving their company's tracking of ESG issues and related communication to the board in the next three years.

The survey also finds that, in comparison with the overall rate, more than half (56 percent) of the surveyed large companies<sup>24</sup> say that ESG investment in the near future should focus on improving the company's tracking of ESG issues and related communication to the board.

To enhance the tracking of ESG issues, a materiality matrix can be created to identify and assess the material aspects by ranking the importance of ESG issues to the company against the perceptions of its key stakeholders.<sup>25</sup> While companies should focus on all the material ESG issues, the board should concentrate on the most strategically important ESG issues that significantly affect the viability and competitive advantages of the company. For example, a beverage company that depends on clean water resources and a stable water supply should emphasise the risks of water shortages and droughts in its manufacturing operations. There should also be greater awareness of the different interpretations of materiality, such as the sustainability field's view that topics material to the company should also be relevant and material to its key stakeholders.<sup>26</sup>

Regardless of whether ESG issues are identified as strategically significant or material, they should be properly addressed in the company's risk management processes and regularly communicated to the board. However, rather than viewing ESG issues just as a risk, the board should also encourage management to focus on the potential ESG-related opportunities relating to innovation, disruption and value creation. In fact, when new business development strategies or opportunities are raised to the board, the board should query how these strategies and opportunities take emerging ESG trends and issues into account, and address medium to longer-term changes in the business environment.

It is important to note that solely focusing on the risk aspect may cause some companies to miss the opportunities posed by ESG initiatives that could create long-term and sustainable value.<sup>27</sup>

<sup>24</sup> With a market capitalisation of over HK\$10,000 million

<sup>25</sup> 'Beyond the Balance Sheet: IFC Toolkit for Disclosure and Transparency', International Finance Corporation, January 2018, [https://www.ifc.org/wps/wcm/connect/7c42d300-2db8-4fc4-96ce-e081cd838b80/Beyond\\_The\\_Balance\\_Sheet\\_Jan\\_19\\_2018.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/7c42d300-2db8-4fc4-96ce-e081cd838b80/Beyond_The_Balance_Sheet_Jan_19_2018.pdf?MOD=AJPERES)

<sup>26</sup> 'Statement of Common Principles of Materiality of the Corporate Reporting Dialogue', CDP et al., March 2016, <http://corporatereportingdialogue.com/wp-content/uploads/2016/03/Statement-of-Common-Principles-of-Materiality1.pdf>

<sup>27</sup> 'ESG, strategy, and the long view', KPMG International, 2017, <https://assets.kpmg.com/content/dam/kpmg/lu/pdf/lu-en-esg-strategy-framework-for-board-oversight.pdf>

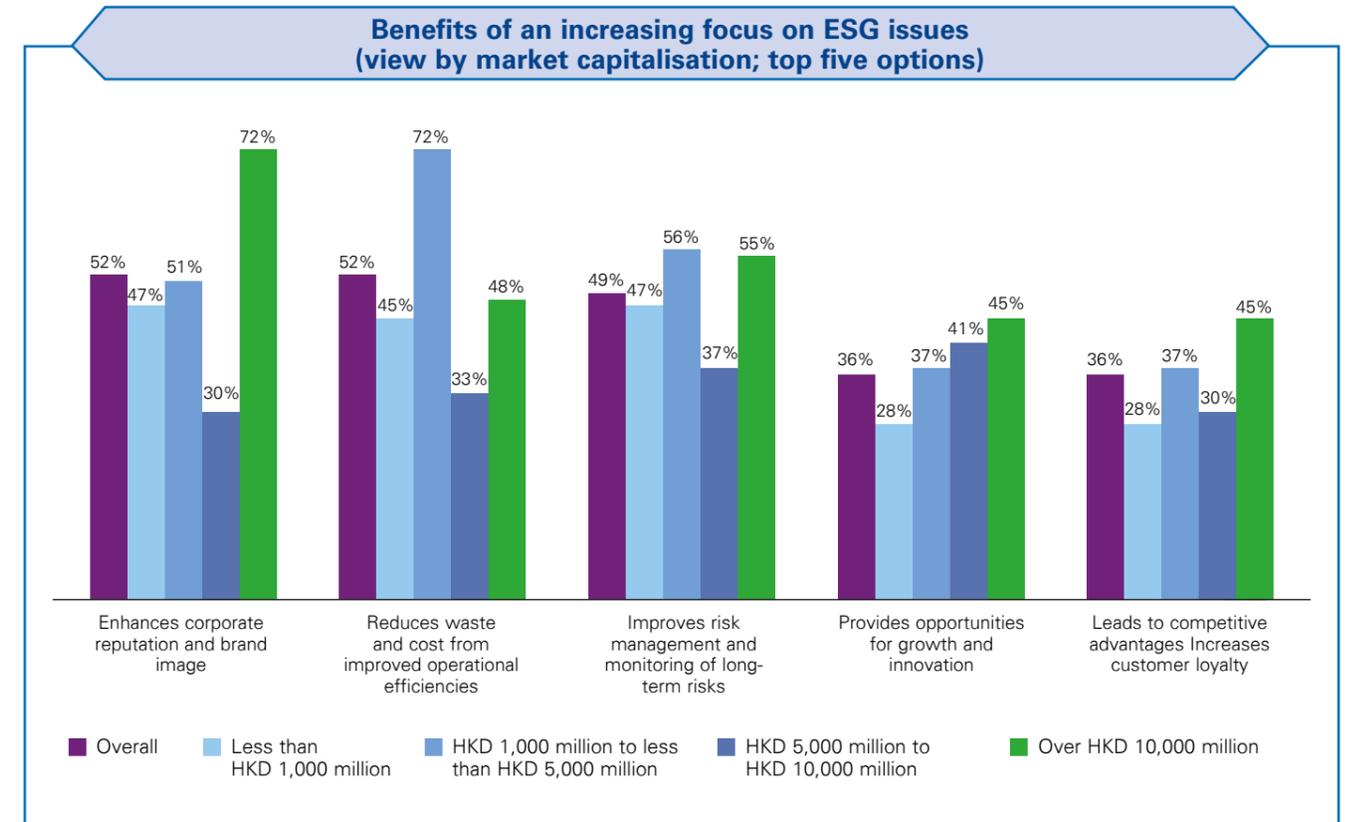
**Key message 5**

# Potential benefits

Business leaders see the benefits of addressing ESG issues, but may have overlooked some of the long-term benefits relating to value creation.



Source: KPMG China analysis



Source: KPMG China analysis

The survey results show that 89 percent of respondents note that companies can benefit in a variety of ways by increasing their focus on ESG issues. Fifty-two percent of respondents say that ESG enhances corporate reputation and brand image, and also reduces waste and costs through improved operational efficiencies. Nearly half of the respondents (49 percent) say that focusing on ESG issues helps improve risk management and the monitoring of long-term risks. Large companies<sup>28</sup> are generally more likely to see the benefits of ESG compared to smaller companies.

However, it is important to note that less than half of the respondents associate ESG initiatives with other long-term benefits. Only 36 percent believe ESG would lead to competitive advantages or provide opportunities for growth and innovation. As companies continue to develop along the ESG journey, this is expected to change as management increasingly shifts its focus from seeking short-term gains to driving long-term growth.

It is also important to note that companies with a strong ESG performance tend to enjoy a number of benefits – both short-term and long-term. A coherent sustainability strategy can create significant benefits and value in the long run, in terms of economic returns and operational performance. In contrast, poor ESG performance can cause damage to a company in immediate financial terms, and pose reputational and strategic risks that could harm its long-term position.

<sup>28</sup> With a market capitalisation of over HK\$10,000 million

As previously mentioned, with 49 percent of respondents viewing improved risk management as a benefit of focusing on ESG issues, it can be suggested that some companies may view ESG issues only from a risk perspective, instead of realising the benefits of ESG activities associated with innovation, competitive advantages and value creation. Some examples of long-term benefits created by ESG activities include:

- Evolving business models to minimise the impact of disruption from technology or regulation.
- The adoption of or investment in renewable energy infrastructure and technology to reduce carbon emissions and costs arising from environmental tax or payments for offsetting carbon emissions.
- Technological advancements in fostering a sharing economy that promotes innovation and improves efficiency.
- Sustainable supply chains that support local farmers' businesses while ensuring supply chain resilience and maintaining competitiveness in the market.
- Business cases for investment in facilities in mainland China to factor in the impact of rising environmental standards.



*HKICS appreciates the value proposition of preference for long-term sustainability over short-term profit for a business and the balancing that ensues. As confirmed by this report, there is much work that needs to be done by businesses in terms of commitment of resources to implement ESG measures. It is hoped that this report will give thoughts to ESG as a practical governance matter in shaping the allocation of resources and strategies of businesses.*

**David Fu FCIS FCS(PE)**  
President  
HKICS

# Five key recommendations



## 1. Developing a purposeful culture for ESG

The consideration of a corporation's role in society is evolving from the periphery to the centre of corporate thinking.<sup>29</sup> In this context, ESG development would be incomplete without considering the importance of corporate culture. Creating a purposeful culture within the organisation where employees feel they play a role in contributing to the mission of the company, and have a positive impact on customers and the local community, is a critical foundation for the long-term sustainability of an organisation. Setting and maintaining the right culture within an organisation leads to benefits that reduce the likelihood and severity of business practices or conduct threatening the health and stability of the organisation. In companies where employees feel a strong sense of purpose, the communication, identification and management of ESG challenges and opportunities are likely to be more effective because employees have a greater commitment to the management of these issues.<sup>30</sup>

This culture should be exemplified at the top and spread across all levels of the organisation, as well as other stakeholder groups including investors, suppliers and local communities. Setting an appropriate "tone at the top" can nurture a corporate culture that gives priority to integrity, ethical standards and long-term sustainable value creation.<sup>31</sup> The board should regularly monitor and assess their company's corporate culture, while management should be responsible for driving this culture throughout the organisation.<sup>32</sup> Business leaders should also communicate the overall purpose behind the corporate culture effectively with key stakeholders, including employees.

<sup>29</sup> 'On the 2018 board agenda', KPMG International, 2018, <https://assets.kpmg.com/content/dam/kpmg/au/pdf/2018/01/on-the-global-board-agenda-2018.pdf>

<sup>30</sup> 'ESG, strategy, and the long view', KPMG International, 2017, <https://assets.kpmg.com/content/dam/kpmg/lu/pdf/lu-en-esg-strategy-framework-for-board-oversight.pdf>

<sup>31</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wlrk.com/docs/thenewparadigm.pdf>

<sup>32</sup> 'Driving corporate culture from the top', KPMG International, March 2017, <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/04/driving-corporate-culture-from-the-top.pdf>



## 2. Articulating the value proposition of ESG: Long-term value creation over short-termism

Board discussions continue to evolve in light of the growing demand for companies to address ESG issues. From our board members' insights highlighted in "On the 2018 board agenda",<sup>33</sup> a KPMG International report, long-term value creation and the company's role in society is one of the top ten issues that the board needs to be aware of. The real value in identifying and managing ESG issues is to shift towards a longer-term focus so that changes impacting business models, customers and society can be better anticipated and effectively managed for the sustainability of an organisation over the long run. Forward-looking board discussions about emerging ESG risks and opportunities should be more frequent.<sup>34</sup>

Companies that adopt a longer-term approach will make more investments in future productivity, such as acquiring newer and more efficient machinery and paying training fees for their employees. While these investments will increase expenses and reduce profits for companies in the current financial year, in the long run they will help increase productivity and competitiveness.<sup>35</sup> Business leaders have to recognise the importance of ESG issues to maintaining a competitive advantage and as a key to long-term performance and value creation.

At the same time, business leaders also need to understand the adverse impacts of short-termism on their business, such as undermining the foundation for future innovation, hindering originality of product enhancement and the research and development that advances technological progress.<sup>36</sup> Shifting away from a business-as-usual approach focused on short-termism, business leaders should explain their value creation strategies<sup>37</sup> and focus on the long-term potential for innovation, disruption and value creation the ESG initiatives offer in the marketplace.

<sup>33</sup> 'On the 2018 board agenda', KPMG International, 2018, <https://assets.kpmg.com/content/dam/kpmg/be/pdf/2018/01/on-the-global-board-agenda-2018.pdf>

<sup>34</sup> 'Is everything under control?', KPMG International, 2017, <https://home.kpmg.com/content/dam/kpmg/xx/pdf/2017/01/2017-global-audit-committee-pulse-survey-global-non-interactive.pdf>

<sup>35</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wlrk.com/docs/thenewparadigm.pdf>

<sup>36</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wlrk.com/docs/thenewparadigm.pdf>

<sup>37</sup> 'Coping, Shifting, Changing 2.0, Corporate and investor strategies for managing market short-term-termism', United Nations Principles for Responsible Investment, accessed on 18 June 2018, <https://www.unpri.org/download?ac=4215>



## 3. Integration of ESG into the business, with effective board oversight

### Why is board oversight important?

While ESG issues can affect a company in many ways – from financial performance to risk management – integrating ESG issues into the business is essential to its long-term sustainability. With the "tone at the top" a key factor in nurturing a purposeful corporate culture for ESG development, the board plays a vital role in driving the integration of ESG into the business effectively.

As the ESG risks and opportunities for companies vary across industries and sectors, companies should conduct a materiality assessment to identify and assess all the ESG issues that are material to the business and its stakeholders. From the entire inventory list of material ESG issues, two or three issues should be identified as strategically significant. Therefore, the board can focus their efforts on addressing those strategically significant ESG issues in their discussions, and drive positive change more effectively.<sup>38</sup>

The board should work closely with management to monitor ESG performance against the company's goals. Addressing ESG issues should be a regular item on the boardroom agenda, and ESG issues that are addressed in the company's risk management process should also be regularly communicated to the board. The board should also take a long-term strategic view focused on creating a well-rounded board that collaborates well in handling multi-dimensional responsibilities with mutual respect and trust.<sup>39</sup>

The board composition also contributes to the effectiveness of its oversight of ESG issues. A diverse board comprising members with different backgrounds and experience can strengthen board performance. It is also essential to have members with strong ESG expertise to enable effective board oversight of the management's handling of different ESG issues.<sup>40</sup> We therefore recommend companies to include ESG expertise as one of the criteria when selecting candidates for the board.

### How to integrate ESG into the business?

With effective board oversight and an ESG governance structure, a company can provide a stronger foundation to support the integration of ESG issues into its core business process. Given that ESG is a relatively new field, there is a learning curve involved. As most companies are still at an early stage in their ESG journey, they will need time to integrate ESG into their business. In this regard, we recommend the following actions:

#### Governance

- Set out clear roles and responsibilities for the chairman, board, governance committee and ESG committee accountable for ESG issues.
- Establish policies that address specific ESG issues and govern how business should be conducted in a sustainable manner, such as sustainable sourcing and supply chain policies for food and beverage companies, and climate change policies for aviation companies.

#### Strategy

- Formulate stakeholder communications and engagement strategies to increase stakeholder awareness of ESG and sustainability issues. This can be done by communicating ESG strategies, initiatives, performance and progress to shareholders and other key stakeholders on a regular basis by using effective communication methods.

<sup>38</sup> 'ESG, strategy, and the long view', KPMG International, 2017, <https://assets.kpmg.com/content/dam/kpmg/lu/pdf/lu-en-esg-strategy-framework-for-board-oversight.pdf>

<sup>39</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wlrk.com/docs/thenewparadigm.pdf>

<sup>40</sup> 'Boards and sustainability: Three best practices', Heidrick & Struggles, 2017, [http://www.heidrick.com/-/media/Publications-and-Reports/Boards\\_and\\_sustainability\\_Three\\_best\\_practices.ashx](http://www.heidrick.com/-/media/Publications-and-Reports/Boards_and_sustainability_Three_best_practices.ashx)



- Develop action plans to achieve business benefits. Examples include implementing ESG initiatives aimed at optimising operational efficiency and waste reduction, and explaining to senior management and other stakeholders how these plans benefit business performance.
- Utilise new ESG-related tools, knowledge and techniques to evolve and improve business performance.
- Develop capacity building strategies and programmes for key stakeholders to improve knowledge of ESG or sustainability issues.

#### Risk management

- Identify, assess and manage ESG risks, including climate-related risks associated with a specific business initiative, specific asset or investment.
- Incorporate ESG risks into an enterprise risk management (ERM) process and describe its integration process as part of the disclosure.

#### Metrics, targets and reporting

- Create a materiality matrix to identify, assess and disclose the ESG issues that are material not only to the company itself but also to the key stakeholders,<sup>41</sup> and that constitute key sustainability opportunities and risks.<sup>42</sup>
- Set and track metrics and KPIs for material ESG issues to assess and monitor the progress or performance against the company's overall strategy and goals.
- Build and strengthen data and reporting systems to get more accurate information for reporting and analysis.
- Publish sustainability or ESG reports annually, which include specific targets or goals.



## 4. Effective communication with stakeholders

Effective communication with both internal and external stakeholders is extremely important in conveying the company's commitment to long-term value creation, and building a mutual understanding with stakeholders regarding a company's ESG strategy and direction. It also helps permeate a company's corporate culture in driving ESG issues and fostering meaningful long-term relationships with stakeholders. Communicating the right things and in the right way are two key ingredients for effective communication on ESG issues.

#### Communicating the right things

- Companies should **communicate their long-term vision and strategies with stakeholders**, including business models, key risks and performance, as well as affirm the board's active involvement in the long-term strategy. They should communicate on how they address ESG, corporate social responsibility (CSR), sustainability and citizenship matters by sharing their direction, initiatives and progress internally and publicly, discussing the impact of these issues with shareholders and investors, and showing how ESG matters align with the company's value and strategy.<sup>43</sup> CEOs should communicate their annual strategic framework and plans for long-term value creation with shareholders. These plans allow shareholders to evaluate a company's long-term strategy and its current progress.<sup>44</sup>
- Companies should explain and **make a business case for long-term investment** as part of their long-term value creation strategy. In particular, companies should explain the benefits, importance, timing and progress of such investments in enhancing long-term growth, competitiveness, productivity and talent retention. In the face of pressure from short-termism, companies should adhere to a strategy that prioritises long-term investment to demonstrate the board's commitment to long-term value creation.

- As part of a company's value creation framework, the board should have a prudent process for reviewing and approving capital allocation policies and communicate with investors and other stakeholders its reasons for **capital allocation priorities**. For example, if research and development (R&D) is part of a company's value creation framework, the board should explain to its stakeholders the importance for prioritising the allocation of R&D resources or budgets, and the investment in advanced technology or machinery in supporting R&D development.
- In light of mandatory ESG reporting in Hong Kong, it is important to **communicate the real value of ESG reporting** to stakeholders – it should be seen as more than just reporting on ESG issues or performance. These reports should address the ESG issues that are material to a company through materiality assessments and prioritisation. By focusing on the material aspects, companies can better establish essential infrastructure, such as policies and management systems to measure, disclose and evaluate their ESG performance, while comparing their performance with other industry players and competitors through peer reviews.

In addition, from a broader view, it helps strengthen trust and the transparency of a company, enabling investors and other stakeholders to make more informed decisions. The recent increased regulatory focus on ESG reporting has also delivered a strong message that the regulators view ESG issues as having a considerable impact on the financial and business values of a company. Investors and shareholders therefore need to take this into consideration when making their investment decisions.

- Regarding climate-related risks and opportunities, the Task Force on Climate-related Financial Disclosures (TCFD) recommends companies to **provide climate-related financial disclosures** in their public annual financial filings. In particular, a company should communicate four core elements of disclosures with its stakeholders – governance, strategy, risk management, and metrics and targets. For example, for strategy and risk management, it is recommended to disclose the actual and potential impact of climate-related risks and opportunities on the company's businesses, strategy and financial planning where such information is important, as well as the process for identifying, assessing and managing these risks. These disclosures would lead to a greater transparency of the risks and opportunities, helping investors to achieve more appropriate pricing of risks and allocation of capital in the market, and make more informed and efficient capital-allocation decisions. With clearer information, investors can be better engaged with companies on the resilience of their strategies and capital spending, which should support a smooth transition to a lower-carbon economy.<sup>45</sup>

#### Communicating in the right way

Companies should also establish effective, open and regular channels of communication to both internal and external stakeholders in advance of a crisis or activist challenge.<sup>46</sup> To communicate effectively with stakeholders, companies can formulate their stakeholder communication strategies by taking into account the following recommendations:<sup>47</sup>

1. Understand and review the stakeholder base, and prioritise their potential impact on the business. This allows a company to prioritise its resources and time for communicating with key stakeholders based on their significance to its business.
2. Develop and regularly review policies on stakeholder communication and engagement to foster open and regular dialogue between the company and its key stakeholders on ESG development.
3. Formulate an investor relations strategy as part of a broader corporate strategy in light of growing shareholder activism. An investor relations strategy should generally lead to the creation of a set of shareholder communication and engagement policies.

<sup>41</sup> 'Statement of Common Principles of Materiality of the Corporate Reporting Dialogue', CDP et al., March 2016, <http://corporatereportingdialogue.com/wp-content/uploads/2016/03/Statement-of-Common-Principles-of-Materiality1.pdf>

<sup>42</sup> 'Beyond the Balance Sheet: IFC Toolkit for Disclosure and Transparency', January 2018, International Finance Corporation, [https://www.ifc.org/wps/wcm/connect/7c42d300-2db8-4fc4-96ce-e081cd838b80/Beyond\\_The\\_Balance\\_Sheet\\_Jan\\_19\\_2018.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/7c42d300-2db8-4fc4-96ce-e081cd838b80/Beyond_The_Balance_Sheet_Jan_19_2018.pdf?MOD=AJPERES)

<sup>43</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wlrk.com/docs/thenewparadigm.pdf>

<sup>44</sup> 'A letter from Laurence D. Fink of BlackRock', 23 January 2017, <http://www.wlrk.com/docs/AnnualCorporateGovernanceLetter.pdf>

<sup>45</sup> 'Recommendations of the Task Force on Climate-related Financial Disclosures', Task Force on Climate-related Financial Disclosures, June 2017, <https://www.fsb-tcfd.org/publications/final-recommendations-report/>

<sup>46</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wlrk.com/docs/thenewparadigm.pdf>

<sup>47</sup> 'Shareholder Communications for Listed Issuers', The Hong Kong Institute of Chartered Secretaries, September 2016, [https://www.hkics.org.hk/media/publication/attachment/PUBLICATION\\_A\\_2385\\_HKICS\\_Shareholder\\_Communications\\_for\\_Listed\\_Issuers\\_\(Eng\).pdf](https://www.hkics.org.hk/media/publication/attachment/PUBLICATION_A_2385_HKICS_Shareholder_Communications_for_Listed_Issuers_(Eng).pdf)

4. Develop a clear allocation of responsibility and accountability for maintaining close relationships with different stakeholders. For example, senior management should take up the responsibility to enhance investor relations as it requires sufficient weight of authority.

Depending on the stakeholders' preferences and habits, selected communication channels should be adopted to target different stakeholders when a company communicates its ESG or sustainability vision, direction, strategies, initiatives and progress.<sup>48</sup> The communication channels include:

- Online presence, such as corporate websites and social media
- Annual reports, ESG/Sustainability/CSR reports
- Regular newsletters, such as quarterly update emails
- Annual General Meetings, Extraordinary General Meetings, and other internal or external events
- Periodic letters to investors and shareholders
- In-person meetings, one-on-one calls or other interactive communication methods



## 5. Capacity building around ESG issues

Having the necessary ESG knowledge and expertise is essential not only for the ESG/sustainability departments or working groups, but also for senior management, including the board and the C-suite. This is particularly important in light of the increasing focus on ESG reporting practices in Hong Kong, as well as the changing environmental regulatory landscape in China.

A comprehensive approach to capacity building should be adopted throughout the organisation, where people in different roles should receive different types of training on ESG. Training materials should be customised to the ESG issues most important to the particular organisation.<sup>49</sup> Specific ESG training should be provided on a regular basis for four main groups of people – senior management (including the board and the C-suite), sustainability working groups, subject matter experts/data owners and other stakeholders.

| Target                             | Potential topics  |
|------------------------------------|---|
| Senior management                  | <ul style="list-style-type: none"> <li>• Risks and opportunities of ESG issues in business processes</li> <li>• Reinforcing the association between ESG issues and their impact on business</li> <li>• New environmental regulatory changes in China and their impact on business</li> </ul>      |
| Sustainability working groups      | <ul style="list-style-type: none"> <li>• The mandatory and voluntary requirements of ESG reporting</li> <li>• ESG reporting strategy and trends</li> <li>• New environmental regulatory changes in China and their impact on business</li> <li>• Climate-related financial disclosures</li> </ul> |
| Subject matter experts/Data owners | <ul style="list-style-type: none"> <li>• Effective ESG data collection and review</li> <li>• Employing relevant and technically qualified professionals to implement management strategies and solutions, as well as to ensure data quality and integrity</li> </ul>                              |
| Other key stakeholders             | <ul style="list-style-type: none"> <li>• Reinforcing the association between ESG issues and their impact on business</li> <li>• Potential benefits of ESG integration for the business</li> </ul>   |

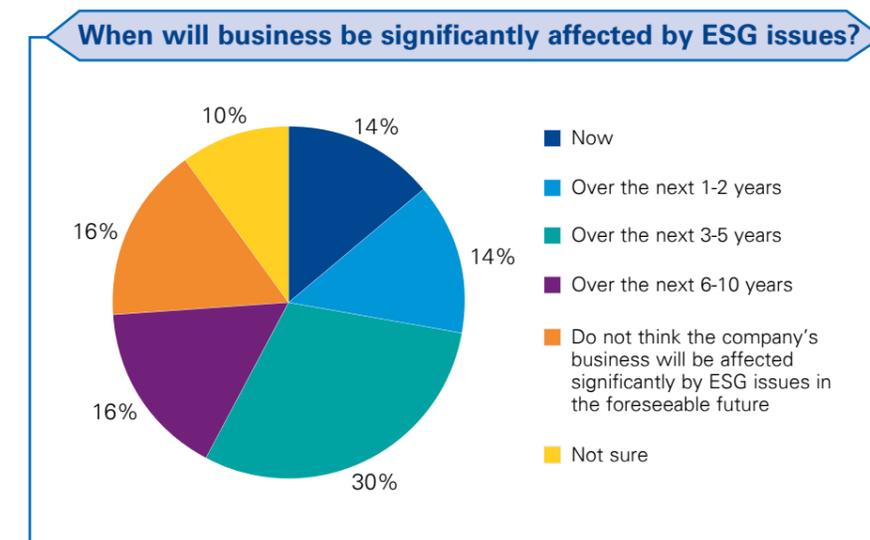
<sup>48</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wirf.com/docs/thenewparadigm.pdf>

<sup>49</sup> 'The New Paradigm', International Business Council of the World Economic Forum, 2 September 2016, <http://www.wirf.com/docs/thenewparadigm.pdf>



## When do you expect your company's business to be significantly affected by ESG issues?

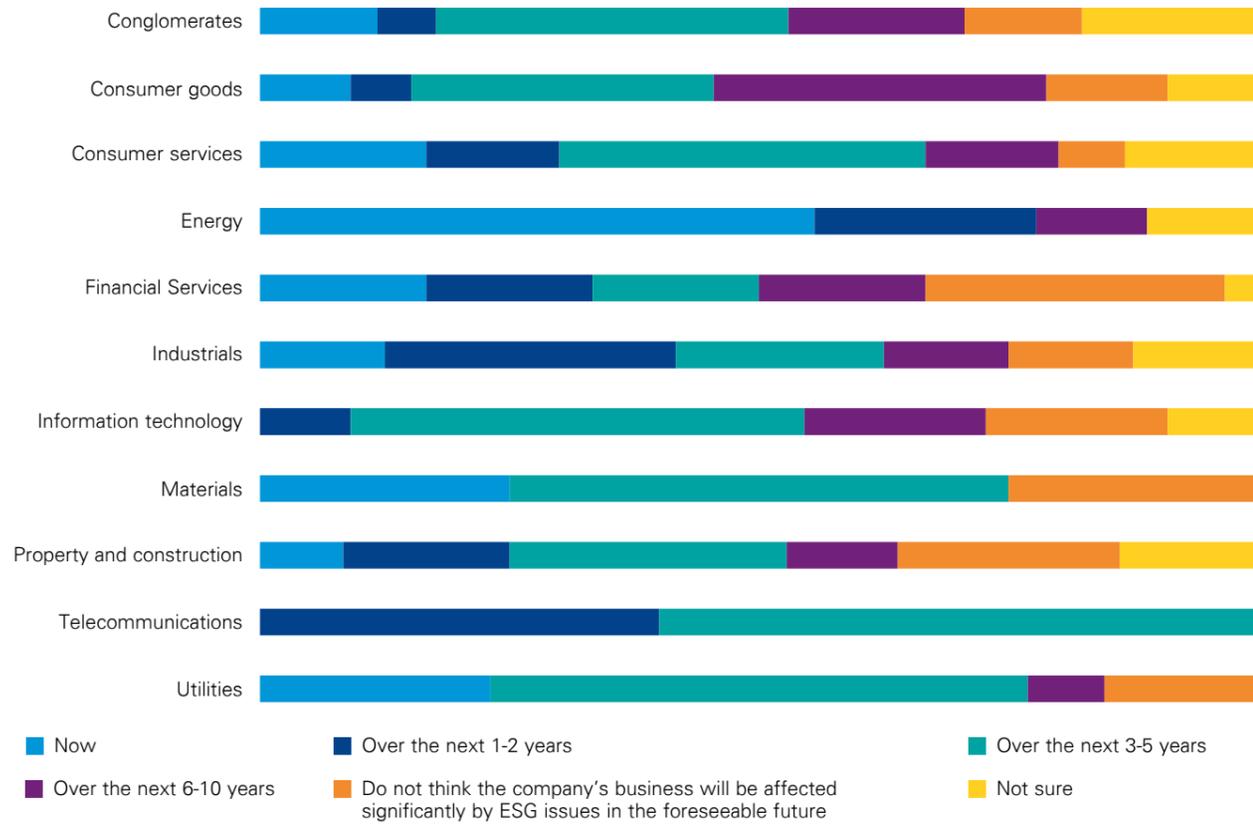
Nearly 60 percent of respondents (combined) expect their companies' business to be significantly affected by ESG issues within the next five years. Fourteen percent of respondents say that ESG issues are affecting their business now, indicating the urgency for companies to proactively seek to improve their ESG reporting and address ESG issues relating to the business.



Source: KPMG China analysis

Among the 11 sectors featured in the survey, the energy industry is the most likely to be affected by ESG issues in the near term. More than 55 percent of respondents in the energy sector say that ESG issues are affecting their companies today, while over 22 percent think ESG issues will affect their business in the next 1-2 years.

### When will business be significantly affected by ESG issues? (view by industry)



Source: KPMG China analysis

### How does management at your company identify and assess ESG issues that are most important to the business?

43 percent of respondents identify and assess ESG issues through integrating ESG into the overall risk management process, while 33 percent consider ESG criteria identified by established frameworks/industry trends.

### How companies identify and assess ESG issues that are most important to the business

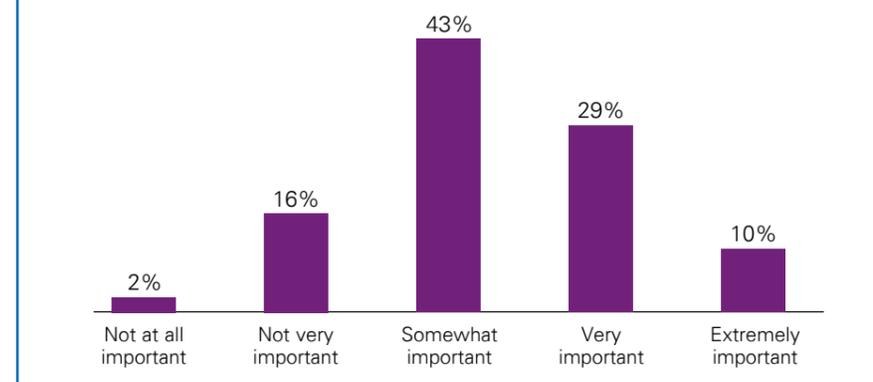


Source: KPMG China analysis

### How important do you consider your role in advancing the ESG agenda in your company?

43 percent of respondents say their roles are "somewhat important" in advancing the ESG agenda in their companies, followed by 29 percent and 10 percent who say their roles as "very important" and "extremely important," respectively.

### The importance of respondents' roles in advancing the ESG agenda in their companies

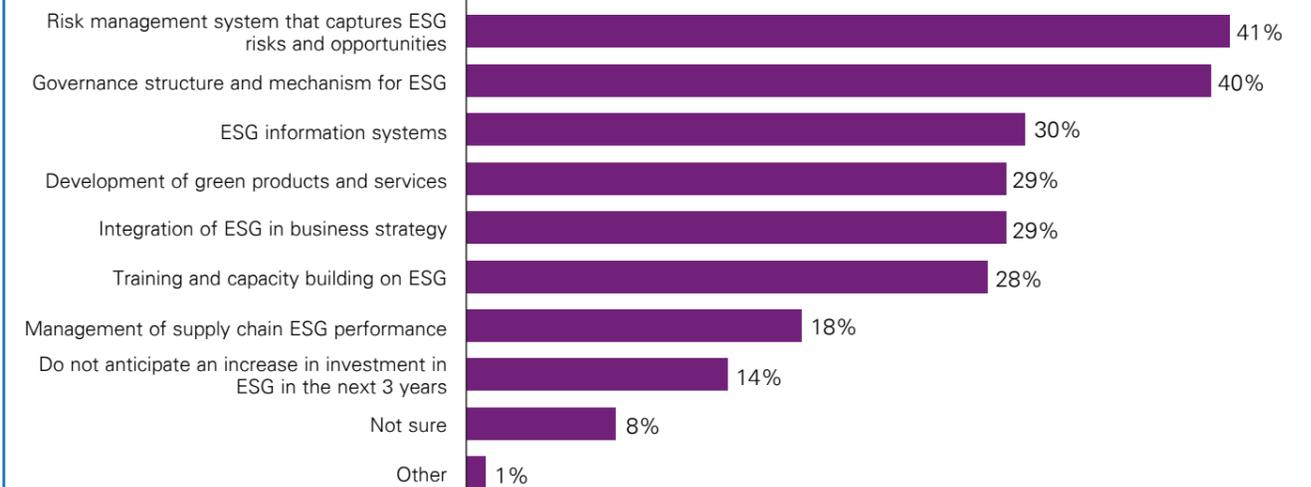


Source: KPMG China analysis

### In which areas do you anticipate your company will increase investment in the next three years?

When asked about the main investment areas to improve ESG development in the next three years, 41 percent of business leaders say that a risk management system that captures ESG risks and opportunities is their top priority, followed by investment in governance structure and mechanisms for ESG (40 percent).

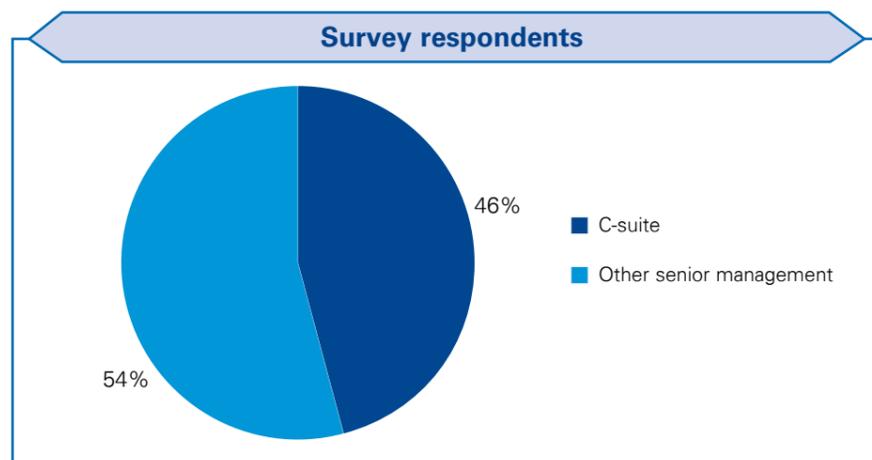
### Areas where companies will increase investment in the next three years



Source: KPMG China analysis

# About this survey

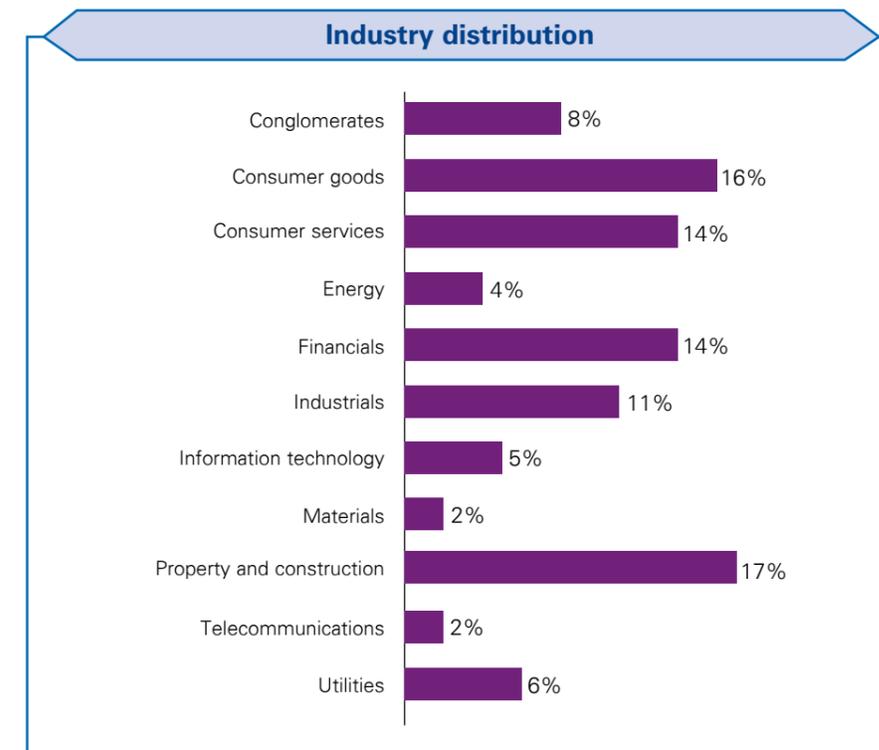
The survey had a total of 212 respondents, comprising either C-suite or senior management of listed companies in Hong Kong. The survey was anonymous, and was conducted from February to April 2018.



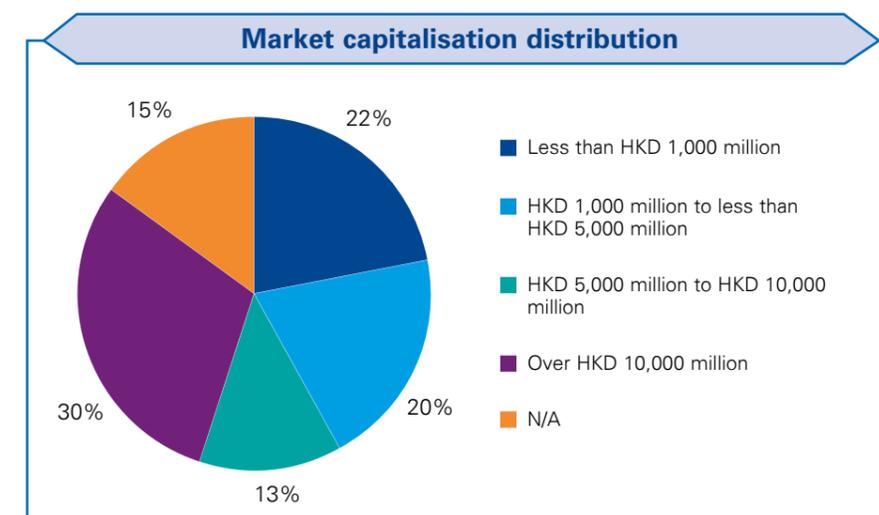
Source: KPMG China analysis

- |   |   |
|---|---|
| <p><b>C-suite:</b></p> <ul style="list-style-type: none"> <li>• Board member</li> <li>• CEO</li> <li>• CFO</li> <li>• Chief Compliance Officer</li> <li>• Chief Investor Relations Officer</li> <li>• Chief Risk Officer</li> <li>• Chief Sustainability Officer</li> </ul> | <p><b>Other senior management:</b></p> <ul style="list-style-type: none"> <li>• Company secretary</li> <li>• General Counsel</li> <li>• Others</li> </ul> |
|---|---|

The survey respondents are from 11 different sectors categorised under the Hang Seng Industry Classification. The sector distribution of the 212 respondents is representative of that of the overall listed companies under the Hang Seng Industry Classification.



Source: KPMG China analysis



Source: KPMG China analysis

# About KPMG, CLP and HKICS

## About KPMG China

KPMG China operates in 19 cities across China, with around 12,000 partners and staff in Beijing, Beijing Zhongguancun, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 154 countries and territories and have 200,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

## About CLP Holdings Limited

CLP Holdings Limited, a company listed on the Stock Exchange of Hong Kong, is the holding company for the CLP Group, one of the largest investor-owned power businesses in Asia Pacific. Through CLP Power Hong Kong Limited, it operates a vertically-integrated electricity supply business providing a highly-reliable supply of electricity to 80% of Hong Kong's population.

CLP's diversified portfolio of generating assets in Asia Pacific uses a wide range of fuels including coal, gas, nuclear and renewable sources. CLP is one of the largest external investors in the Mainland's renewable energy sector. In India, it is one of the biggest renewable energy producers and among the largest foreign investors in the electricity sector. In Australia, its wholly-owned subsidiary EnergyAustralia is one of the largest integrated energy companies, providing gas and electricity to over 2.6 million households and businesses.

CLP is listed on the Global Dow – a 150-stock index of the world's leading blue-chips, the Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific), the Dow Jones Sustainability Asia Pacific 40 Index (DJSI Asia Pacific 40), Hang Seng Corporate Sustainability Index Series and MSCI Global Sustainability Index Series.

## About The Hong Kong Institute of Chartered Secretaries

HKICS was first established in 1949 as an association of Hong Kong members of The Institute of Chartered Secretaries and Administrators (ICSA) of London. It was a branch of ICSA in 1990 before gaining local status in 1994 and has also been ICSA's China/Hong Kong Division since 2005.

HKICS is a founder member of Corporate Secretaries International Association (CSIA) which was established in March 2010 in Geneva, Switzerland. In 2017, CSIA was relocated to Hong Kong in which it operates as a company limited by guarantee. CSIA aims to give a global voice for corporate secretaries and governance professionals.

HKICS has over 5,800 members and 3,200 students.

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