



# **HKQAA CSR Index Series and Sustainability Rating & Research 2018 Summary Report**

May 2019

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## About Hong Kong Quality Assurance Agency (HKQAA)

Since its establishment by the Hong Kong Government Industry Department in 1989, Hong Kong Quality Assurance Agency (HKQAA) has been committed to providing professional conformity services to private and public organizations. Through knowledge sharing and technology transfer, we help enterprises enhance management performance and competitiveness so as to benefit the community as a whole.

Since 1989, HKQAA has become one of the leading and most trusted Conformity Assessment Bodies (CABs) in the Asia Pacific region. With over 5,000 certificates spanning various industries, HKQAA is serving organizations in Hong Kong, mainland China and other Asian countries. The headquarters of the HKQAA is located in Hong Kong. It also has offices in Macau, Guangzhou and Shanghai, as well as a representative in Xian.

At present, HKQAA holds many accreditations for auditing Quality, Environmental, Occupational Health & Safety, Sustainability and Information Security management systems, including accreditations under UNFCCC (United Nations), UKAS (UK), HKAS (Hong Kong) and CNAS (China). For ethical auditing, we are accredited by SAAS for SA8000.

With the growing concerns of various stakeholders on the environment, workforce and the community at large, HKQAA introduced the ISO 14001 Environmental Standard and OHSAS 18001 Occupational Health and Safety Standard in the 90's and, in the last decade, many other new sustainability initiatives including the Global Reporting Initiative (GRI), SA 8000 Social Accountability Standard, ISO 14064 Standard for carbon emissions verification, the ISO 26000 based HKQAA-HSBC CSR Index (now evolved and re-named as HKQAA CSR Advocate Index and HKQAA CSR Index Plus) and the Clean Development Mechanism (CDM) to aid the business community in Hong Kong and China to address the need for sustainability of the society locally and globally.

In addition to international management tools, we also launched in recent years many other local initiatives to cater for the specific needs of the local community such as the HKQAA Sustainable Building Index (SBI), the HKQAA-HKJC Carbon Disclosure e-Platform (CDeP) and the Barrier Free Accessibility (BFA) Management System Certification. In the time to come, we will continue offering many more other management tools to assist organizations to achieve a balanced development in business results and social responsibility.

## About HKQAA CSR Index and Sustainability Rating & Research

HKQAA launched in 2008 the HKQAA CSR Index (formerly HKQAA-HSBC CSR Index) to provide quantitative metrics for measuring the maturity of an organization's social responsibility practices. **HKQAA CSR Advocate Index**, an annual voluntary benchmarking scheme, was derived in the first place. It aims to promote the application of the ISO 26000:2010 Guidance on social responsibility and help the participating organizations determine their CSR system maturity.

The guidance of ISO 26000 is comprised of CSR practices under seven core subjects, namely Organizational Governance (OG), Human Rights (HR), Labour Practices (LP), The Environment (Env), Fair Operating Practices (FOP), Consumer Issues (CI), and Community Involvement and Development (CID). There are five scoring categories to represent the level of maturity of respective CSR practices as follows: 1 – Starting Phase; 2 – Forming Phase; 3 – Implementing Phase; 4 – Confirming Phase; and 5 – Improving Phase.

HKQAA started providing **Sustainability Rating and Research (SRR)** services to Hang Seng Indexes Company Limited (Hang Seng Indexes) since 2014, an advanced version of HKQAA CSR Advocate Index, HKQAA CSR Index Plus scheme, was launched in the HKQAA CSR Index series to provide a more comprehensive approach to assess the management of social responsibility issues<sup>1</sup>. With reference to several international standards, including the GRI G4 Sustainability Reporting Guidelines in addition to ISO 26000, SRR and CSR Index Plus enable a multi-angle approach to measure the organizations' sustainability performance by assessing also accountability, country and industry risks and media exposure.

During an HKQAA CSR Index assessment, the HKQAA professional conducts on-site verification to interview the representatives of the participating organization about the system setting, validate the factual evidence of implementation practices and confirm the scores for the respective forty CSR practices based on the defined scoring criteria. The detailed scoring criteria of the CSR practices have been defined in the HKQAA CSR Advocate Index and HKQAA CSR Index Plus Scoring Handbooks.

For HKQAA SRR, substantial information was obtained from over 700 annual reports about companies' regulatory compliance and financial performance including revenues and

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<sup>1</sup> HKQAA CSR Index Plus is based on the same proprietary sustainability performance assessment methodology as HKQAA SRR. Participants of CSR Index Plus scheme can therefore benchmark against more than 700 listed companies in HKSAR and PRC which were assessed in HKQAA SRR on sustainability performance.

segmental data. HKQAA's Assessment Team review sustainability/ CSR reports (including stand-alone and integrated reports) and made reference to company public domain websites as well as local and international media reports, so as to assess their sustainability performance as a whole. All the eligible companies were provided an opportunity to offer feedback and supporting documents to HKQAA in the form of a questionnaire to supplement the publicly available information gathered from company reports and webpages. The responses to the questionnaires offered very useful insight to the current management approaches to the sustainability opportunities and risks within these companies. Further information on HKQAA SRR Methodology and Process are available on our dedicated platform: <https://srr.hkqaa.org>.

## About this Report

In order to drive continuous improvement with regard to CSR and sustainability issues, the assessment results for **HKQAA CSR Advocate Index**, **HKQAA CSR Index Plus** and **HKQAA Sustainability Rating and Research** are enumerated in this report. With the aim to achieve the benchmarking purpose of the HKQAA CSR Index Plus scheme and HKQAA SRR, the performance analysis of the two, involving a total of 716 companies, are integrated in this report. To increase the comparability of the participating organizations of HKQAA CSR Index and the eligible listed companies assessed in HKQAA SRR on sector level, all the organizations are classified using the Hang Seng Industry Classification System (“HSICS”)<sup>2</sup>, namely *Energy, Materials, Industrials, Consumer Goods, Consumer Services, Telecommunications, Utilities, Financials, Properties and Construction, Information Technology, Conglomerates*, with inclusion of *Government Department*.

The annual review of HKQAA SRR 2018 is also provided at *Appendix A: HKQAA Sustainability Rating and Research Annual Review 2018* for supplementary information.

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<sup>2</sup> For details of the Hang Seng Industry Classification System (“HSICS”), please refer to <http://www.hsi.com.hk/HSI-Net/HSI-Net>.

## Distribution of the Organizations by Industrial Sector

In 2018, a total of 41 organizations showed their commitment of social responsibilities by participating in HKQAA CSR Index series (17 took part in HKQAA CSR Advocate Index and 24 took part in HKQAA CSR Index Plus). As compared to last year, the total number of participants of CSR Index series has shown an increase of 5%. The list of participating organizations covers a whole range of government department, as well as listed and non-listed sustainability-driven corporations. Among all the participants, 15 of them (2 from CSR Advocate Index and 13 from CSR Index Plus) are newly joined the schemes.

In HKQAA SRR 2018, the sustainability performance of 692 eligible listed companies was reviewed for inclusion in the Hang Seng Corporate Sustainability Index series – 467 Hong Kong companies (including dual-listed companies, classified as Hong Kong stocks) and 225 China Share companies.

### HKQAA CSR Advocate Index

As shown in the chart below for distribution of CSR Advocate Index participants, 6 companies are derived from Properties and Construction sector; 4 of them are from Industrials sector; 2 of them are from Consumer Goods sector; 3 of them are from Consumer Services sector and 2 of them are Government Department.

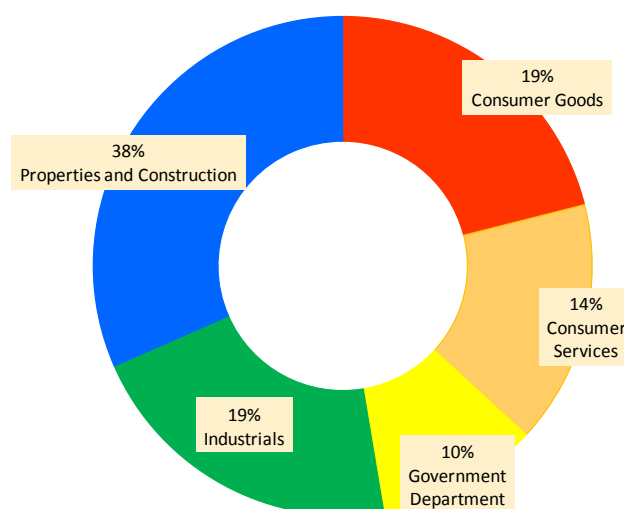


Chart 1 – Distribution of CSR Advocate Index Participants by Industrial Sector

## HKQAA CSR Index Plus and HKQAA SRR

With reference to Chart 2 below, more than 80% of the HKQAA CSR Index Plus participants and assessed listed companies in HKQAA SRR are derived from 6 sectors, including Consumer Goods (162), Properties and Construction (123), Financials (91), Industrials (86), Consumer Services (62) and Information Technology (51).

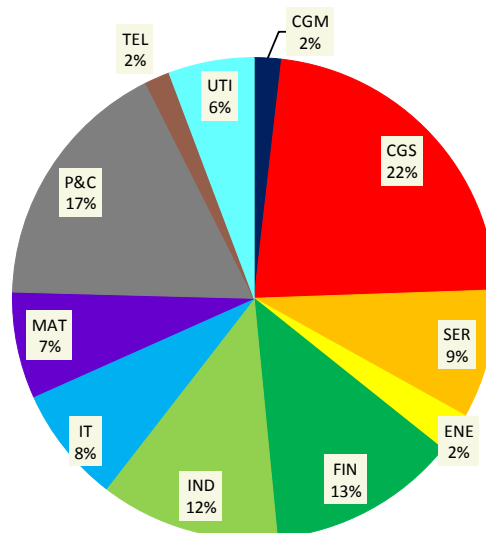


Chart 2 – Distribution of CSR Index Plus Participants and Assessed Companies in SRR by Industrial Sector

There were a total of 733 companies involved in HKQAA CSR Index series and Sustainability Rating Research in 2018 (including 17 HKQAA CSR Advocate Index participants, 24 HKQAA CSR Index Plus participants and 692 assessed listed companies in HKQAA SRR).

Sector Abbreviation as below:

CGS Consumer Goods	CGM Conglomerates	CS Consumer Services	ENE Energy
FIN Financials	IND Industrials	IT Information Technology	MAT Materials
P&C Properties and Construction	TEL Telecommunications	UTI Utilities	



## Participating Organizations of HKQAA CSR Advocate Index



ATAL Engineering Group



Chun Lee Engineering Company  
Limited



Driltech Ground Engineering  
Limited



FrieslandCampina (Hong Kong)  
Limited



GP Batteries International Limited



興勝創建控股有限公司

HANISON CONSTRUCTION HOLDINGS LIMITED

Hanison Construction Holdings  
Limited



協興  
HIP HING

新創建集團成員  
Member of NWS Holdings

Hip Hing Engineering Company  
Limited

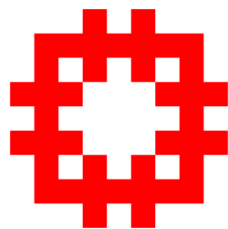


Hong Kong Trade Development  
Council

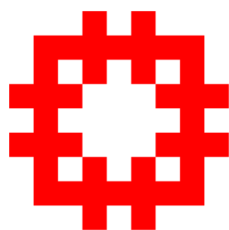


合成環保  
Hop Shing Recycling

Hop Shing Environmental  
Recycling Limited



Housing Department  
(Development and Construction  
Division)



Housing Department  
(Estate Management Division)



Jumbo Orient Contracting Limited



Shinryo (Hong Kong) Limited



Shinryo Technical Services  
Limited



Shun Yuen Construction Company  
Limited



**棠記工程有限公司**  
TONG KEE ENGINEERING LIMITED

Tong Kee Engineering Limited



**有利建築有限公司**  
Yau Lee Construction Co., Ltd.

Yau Lee Construction Company  
Limited

## Participating Organizations of HKQAA CSR Index Plus



Café de Coral Holdings Limited



Champion Real Estate  
Investment Trust



中國飛機租賃集團控股有限公司  
China Aircraft Leasing Group Holdings Limited

China Aircraft Leasing Group  
Holdings Limited



China Everbright Greentech  
Limited



China Everbright International  
Limited



Chow Tai Fook Jewellery  
Group Limited



CLP Holdings Limited



Henderson Land  
Development Company  
Limited



Hong Kong Broadband  
Network Limited



Kai Shing Management  
Services Limited International  
Commerce Centre Management  
Services Office (ICC)



K. Wah Construction  
Materials



KERRY PROPERTIES  
嘉里建設

Kerry Properties Limited



Leo Paper Group (Hong Kong)  
Limited



New World Development  
Company Limited



NWS Holdings Limited



Orient Overseas  
(International) Limited



Sa Sa International Holdings  
Limited



SHENZHOU INTERNATIONAL GROUP  
申洲國際集團

Shenzhou International Group  
Holdings Limited



Shun Tak Holdings Limited



Sun Hung Kai Properties  
Limited





WHARF

*Established 1886*

The Wharf (Holdings) Limited



WELL BORN 物業管理有限公司  
Real Estate Management Limited  
恒基兆業地產集團成員公司 A Member of Henderson Land Group

Well Born Real Estate  
Management Limited



WHEELOCK

*Founded 1857*

Wheelock and Company  
Limited



WHARF

*Established 1886*

Wharf Real Estate  
Investment Company

## Overall Performance in 2018

### HKQAA CSR Advocate Index

In summary, the average score of HKQAA CSR Advocate Index was 4.72 out of 5 in 2018 and recorded a 0.6% decrease as compared to year 2017. Organizations' continuously endeavours to encourage a positive impact on the environment and stakeholders including employees, consumers, investors and communities. The decrease in average score due to the new joiner for this year. Apart from that, the performance is satisfactory and becoming stable. The implementation of CSR within various participating organizations goes beyond law compliance and engages in activities that are beyond the interests of the organizations.

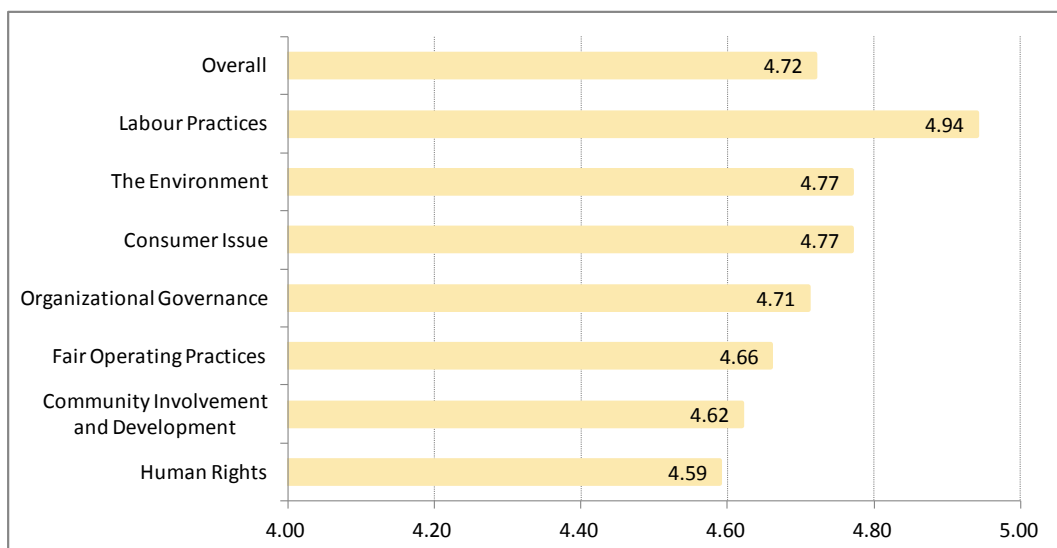


Chart 3 – Average Scores of the 7 CSR core subjects in 2018 for HKQAA CSR Advocate Index

Labour Practices remained the highest-scoring subject this year and over the previous years. This consistently improving trend showed organizations' commitments to fulfilling the changing needs of employees and boosting their employability. Human Rights scores the lowest among all the core areas.

According to Chart 4, the performance of Consumer Issues deteriorates compared to last year. Consumers are expecting more from the companies on formulating policy and plan to build a sustainable society, especially on cyber security, personal data protection and eliminate unfair marketing practices. Labour Practices almost reaches full score as companies address to employees' concerns in the working environment, rights and benefits.

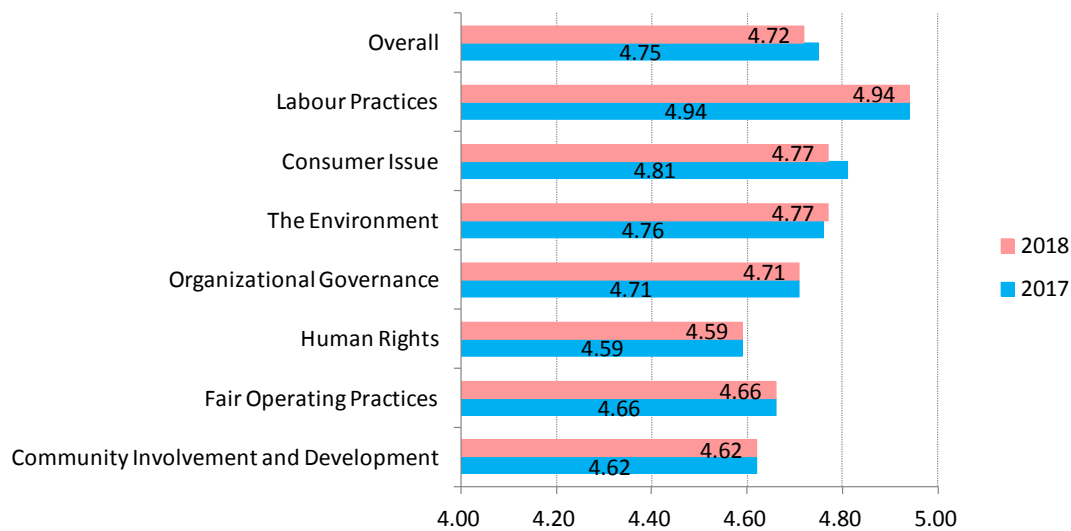


Chart 4 - Average Scores of the 7 CSR core subjects in 2017 vs 2018 for HKQAA CSR Advocate

Chart 5 shows the comparison between 2009 and 2018. The Environment and Fair Operating Practices are the areas which have the biggest growth in the last 7 years. It is an encouraging outcome as more and more participants are aware of CSR. Participants are spending more efforts in enhancing fair operating practices, it reflects the public and investors keep demanding the company to be operated in a fair and open way.

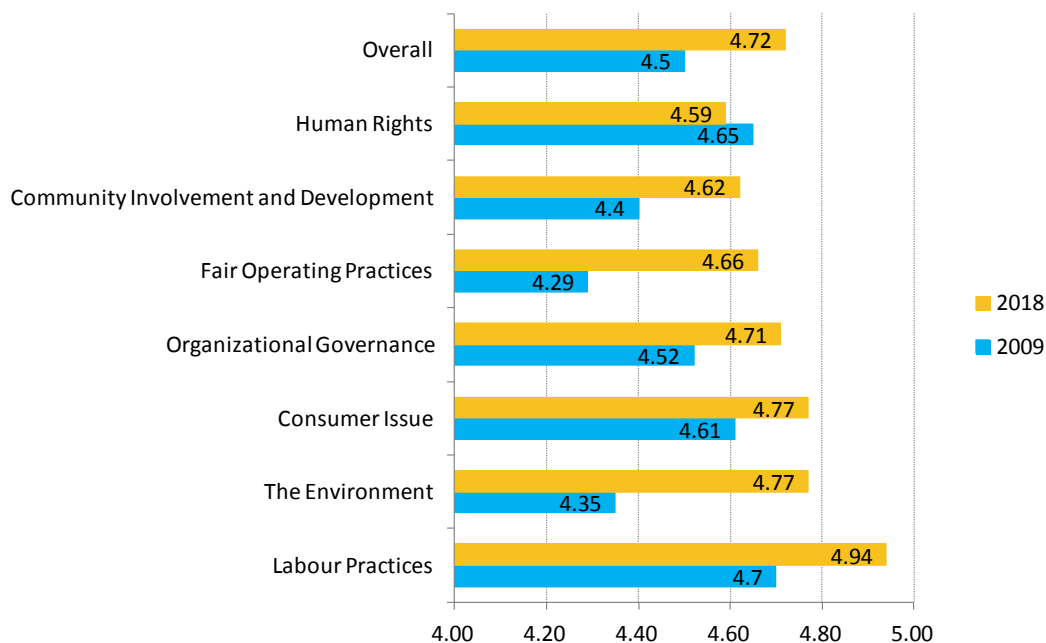


Chart 5 - Average Scores of the 7 CSR core subjects in 2009 vs 2018 for HKQAA CSR Advocate

## HKQAA CSR Index Plus and HKQAA SRR

In 2018, the average score of HKQAA CSR Index Plus and HKQAA SRR was 54.06 out of 100, representing an increase of 8.3% as compared to last year. For the companies assessed in HKQAA SRR, it is a listing requirement to issue the stand-alone sustainability report or integrated their sustainability performance in their annual report.

As accountability, media exposures, country and industry risks are taken into account in this assessment model, the performance variations across and within industries, as well as between Hong Kong and China markets have been significant. This year, the performance of the Environment has improved significantly. More and more companies are spending more resources on implementing plan and policy to protect the earth. In general, a greater effort should be made in the area includes Human Rights, Consumer Issues and Community Involvement and Development.

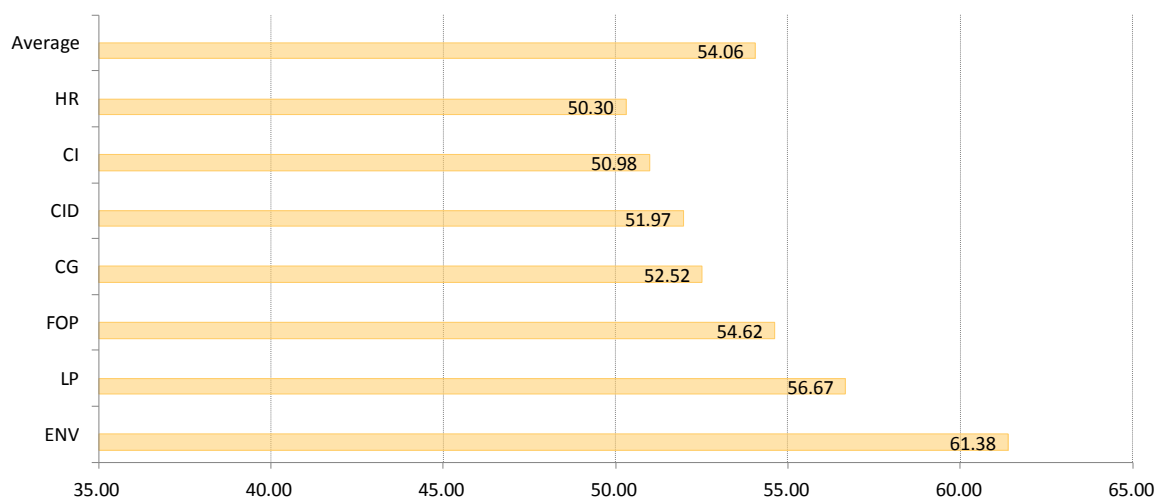


Chart 6 – Average Scores of the 7 CSR core subjects in 2018  
for HKQAA CSR Index Plus and HKQAA SRR

As illustrated in the table below, improvements have been observed in all core subjects between year 2017 and 2018. The performance for the Environment has over 20% growth.

	Average Score in 2017	Average Score in 2018	Trend and % change
Organizational Governance	50.55	52.52	↑3.9%
Human Rights	51.53	50.30	↓2.38%
Labour Practices	55.79	56.67	↑1.58%
The Environment	47.87	61.38	↑28.22%
Fair Operating Practices	48.66	54.62	↑12.26%
Consumer Issues	48.99	50.98	↑4.06%
Community Involvement and Development	46.23	51.97	↑12.41%
Overall	49.95	54.06	↑8.24%

Table 1 – Average Scores of the 7 CSR core subjects in 2017 and 2018  
for HKQAA CSR Index Plus and HKQAA SRR

## Sector-Level Performance in 2018

### HKQAA CSR Advocate Index

As shown in the Chart 7, Government Department was the best performing sector in 2018 followed by Consumer Goods and Properties and Construction sectors. The participating public organizations undertake many innovative initiatives on capacity building of their employees, environment protection, promotion of green and energy efficient technologies, and uplifting the under-privileged groups of the society, etc. Their crucial roles in promoting CSR were realized in the mature management systems created for various CSR practices.

The overall performance of participants in Industrials and Consumer Services sectors has reached maturity level in spite of the relatively lower scores obtained.



Chart 7 – Average Scores by Sectors 2018 for HKQAA CSR Advocate Index

## HKQAA CSR Index Plus and HKQAA SRR

Chart 8 below gives the overview of the maximum, minimum and average scores by industrial sectors for HKQAA CSR Index Plus and HKQAA SRR 2018. Looking at the average scores of all industries, Conglomerates, Telecommunications and Properties & Construction sectors demonstrated the strongest sustainability performance.

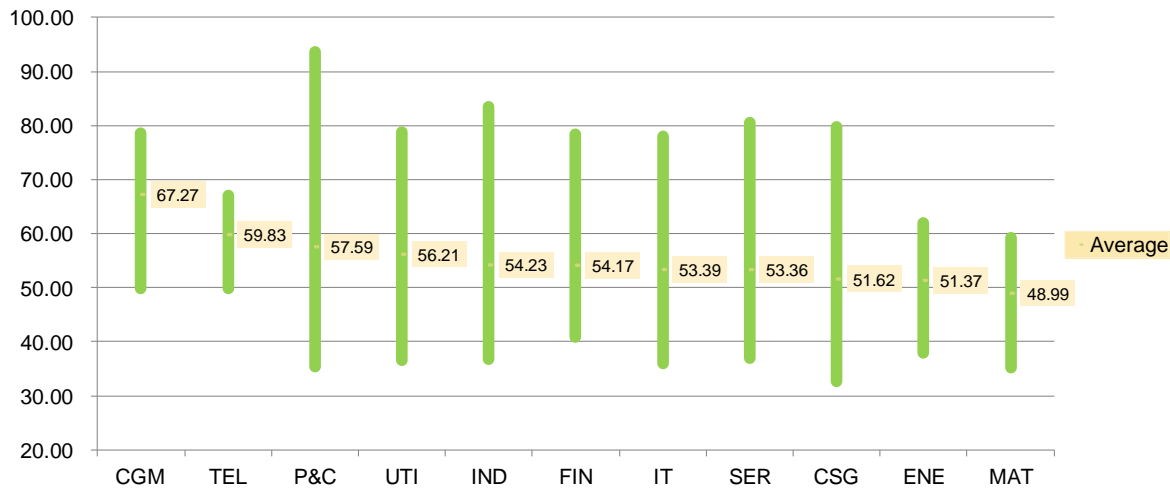


Chart 8 – Maximum, Minimum and Average Scores by Sectors 2018

Chart 9 below shows the average overall scores by sector in Hong Kong and China markets. When comparing to their performance, we observed that the Hong Kong companies outperformed the China ones in all sectors. The gaps are especially large in Conglomerates. The Telecommunications industry in China performed the best among the industries.

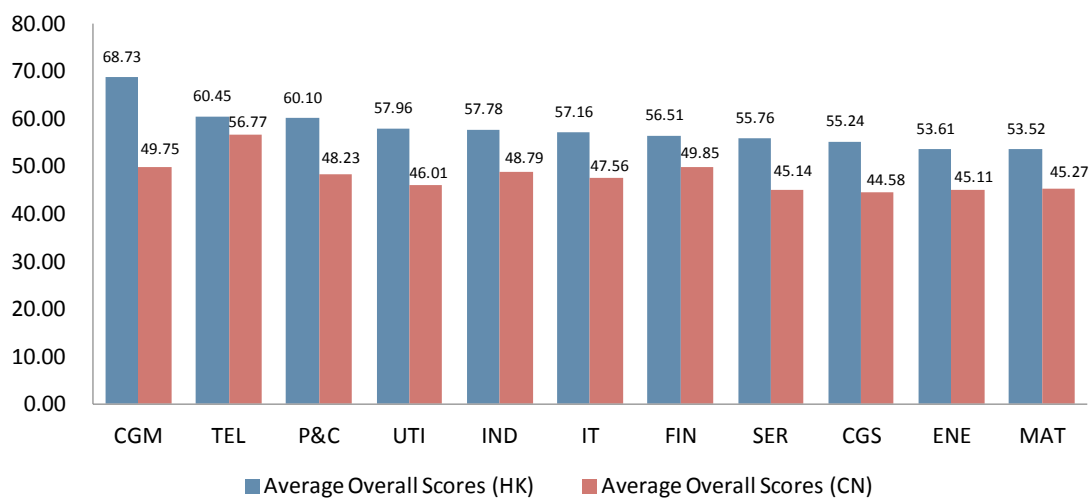


Chart 9 – Average Overall Scores by Sectors and Markets 2018

## Subject Performance in 2018

### HKQAA CSR Advocate Index

Regarding the general subject performance of CSR Advocate Index participants as shown in Chart 3, Labour Practices scored the highest across industries. Subject performance of various sectors are provided in Chart 8 below and shows minimal deviation between sectors. In our verification process in 2018, the following CSR initiatives continued to drive the improving CSR performance.

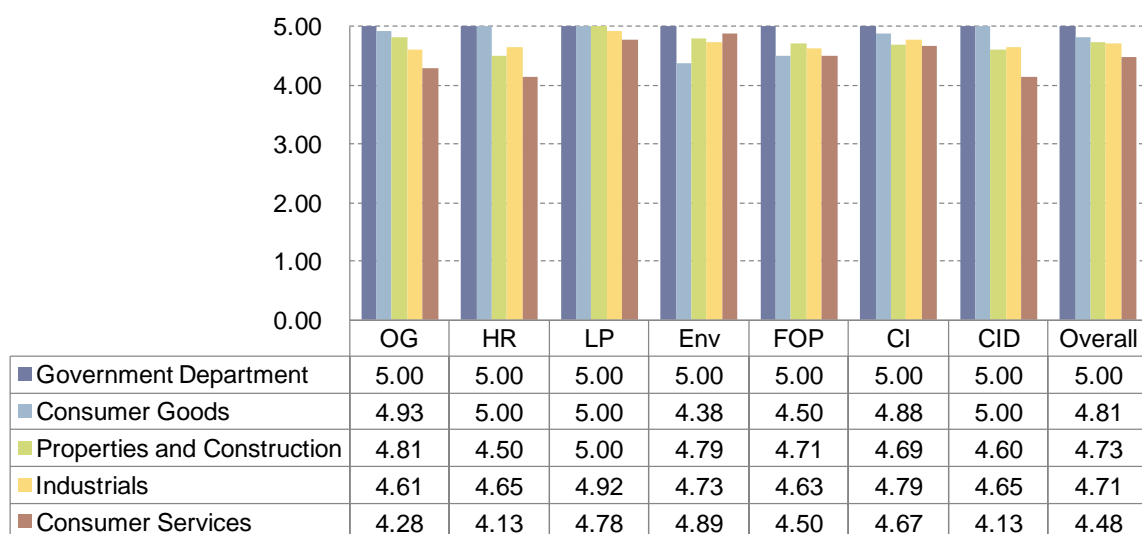


Chart 10 – Subject Scores of Various Sectors 2018 for HKQAA CSR Advocate Index

### 1. Top management commitment

The senior management of the participating organizations have demonstrated the pioneering efforts to integrate CSR into organization’s operational culture and further improve their CSR performance. The management teams plan, monitor, review and improve the on-going CSR activities in response to the stakeholders’ needs and expectations in the rapidly changing environment. The change in the global socio-economic environment and focus on purpose-driven business models has raised the bar for CSR leaders. The leaders align social impact with their company’s business strategy, talent pipeline, macro environment and lead strategic change initiatives.

### 2. Stakeholder engagement

With the aim to include social issues and build long-term relationship with all stakeholders, stakeholder engagement is seen to be a critical process in successful CSR integration.



Employees, customers, suppliers and community are often the key internal and external stakeholders of an organization to gain diverse perspectives for management's decision making and operational review.

### **3. Embedding CSR into people management and development**

Participating organizations incorporated CSR into their code of conduct, employee recruitment policy and training. Staff development of participating organisations now focuses on ethics training, e.g. anti-corruption, green procurement as well as the ways that advance the quality of work life, product quality and the community well-being where organizations operate. This helps manage risks and reduce the likelihood of crisis related to employment, supply chain management and consumption.

### **4. Strategic community investment**

Mobilizing not only money, but also the company's people, products and premises, participating organizations support and strengthen local communities and non-profit partners in a manner that is aligned with the company's core areas of competence and interest. More and more efforts are paid in building long-term cross-sectoral relationships with NGOs and community on the basis of trust, shared values, and collaborative improvement.

### **5. Accelerating the transition to the circular economy**

With a growing population and ever-rising demand for resources, it's becoming necessary to find ways to eliminate waste and reuse valuable materials endlessly. Companies are starting to manufacture products or services at making sustainable choices regardless the people's income or territory to support long term growth.

## HKQAA CSR Index Plus and HKQAA SAR

In view of the sustainability performance variation between and within good industries, good practices observed from the top performers are consolidated under each subject.

### 1. Organizational Governance (OG)

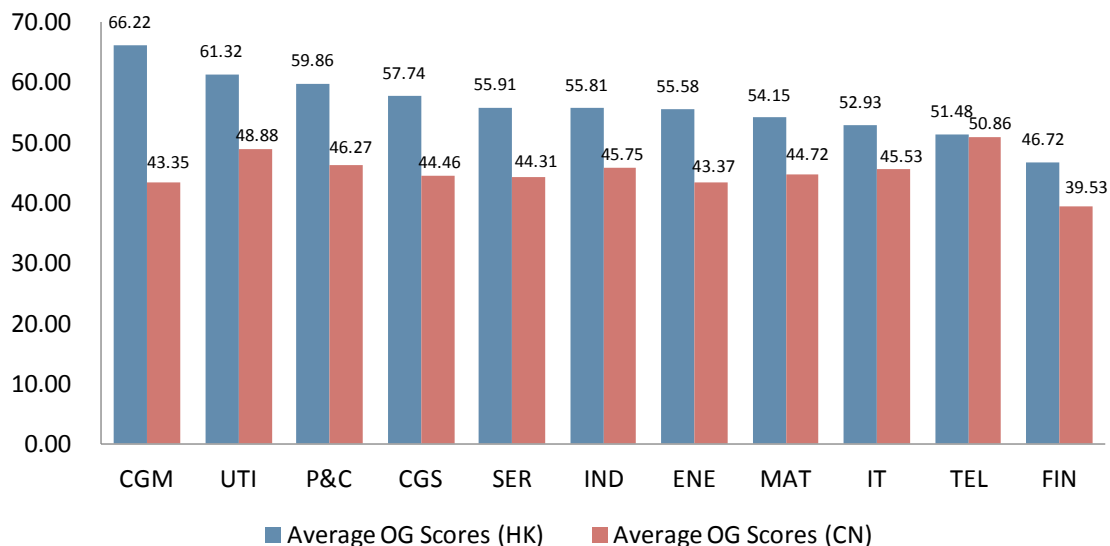


Chart 11 – Average Scores of Organizational Governance by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

#### Good Practices Observed

Companies conduct regular stakeholder engagement exercises that fit with their core values and strategic direction. A wide range of major stakeholder groups were identified, ranging from employees, customers, governments, contractors and suppliers, local communities, shareholders, NGOs, media, academic and industry experts and the general public. To meet stakeholders' expectations, different engagement channels and tools were used such as public forums, media briefing, customer messages, surveys to stakeholders etc. In the process of engagement, they focus on the active involvement of stakeholders, learning from their feedback and responding to their concerns to develop trust through long-term relationships. Companies also establish sustainability risk and crisis management mechanism to deal with disruptive and unexpected events that threatens to harm the organization.

Developing sustainability management and reporting frameworks with short- to long-term objectives, specific and measurable targets, action plans and dedicated personnel. The progresses against each impact area are reported to the senior management regularly.

## 2. Human Rights (HR)

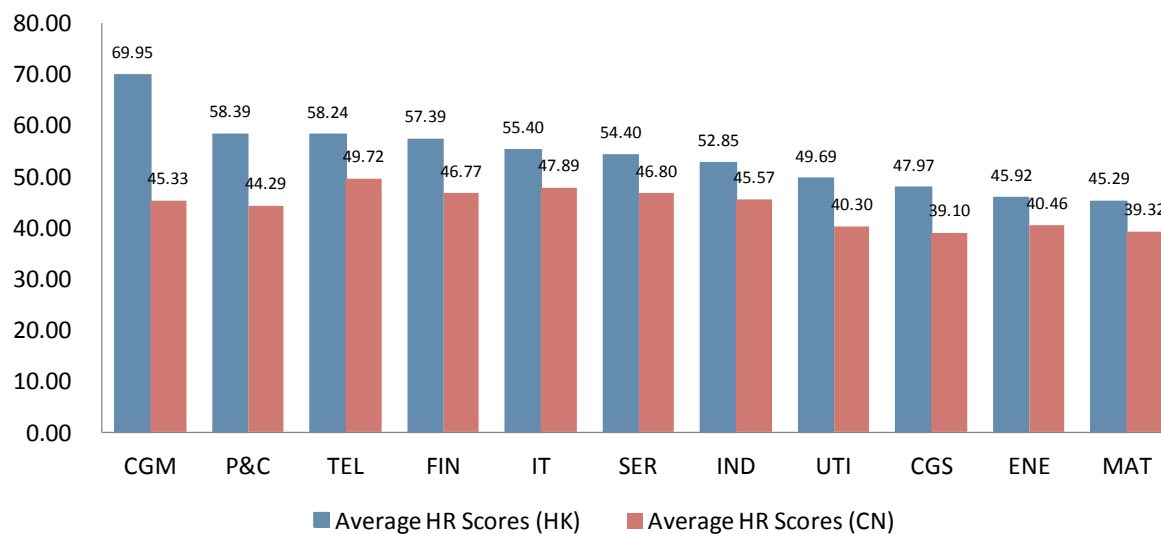


Chart 12 – Average Scores of Human Rights by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

### Good Practices Observed

Signing up to global initiatives and principles, e.g. ILO Conventions and Declarations and the UN Global Compact, SA8000, companies demonstrated their commitments to tackling with the human right issues. Human rights considerations were seen directly applied to their employees and indirectly through their suppliers and customers. Diverse and inclusive cultures were driven within the companies through targeted education and encouraging the career development of diversity, for example, sexual orientation, ethnicity and disability. There is an increasing trend for companies to establish program to communicate with their employees including resolve grievances.

### 3. Labour Practices (LP)

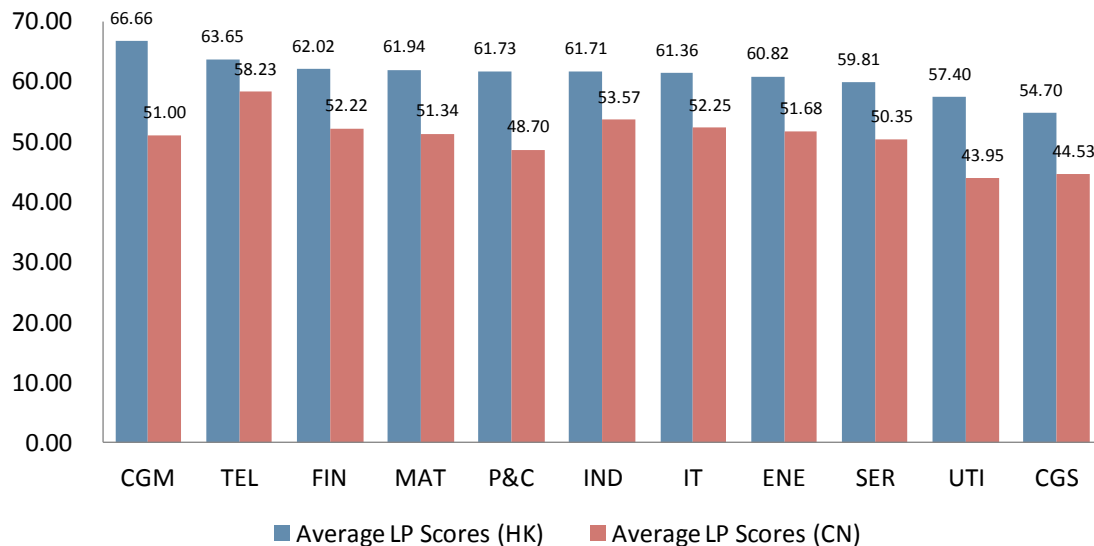


Chart 13 – Average Scores of Labour Practices by Sectors and Markets  
for HKQAA CSR Index Plus and HKQAA SRR

#### Good Practices Observed

Companies conduct regular employee satisfaction surveys understand employees' needs based on survey results. Training system was established on a need-basis targeting staff at various levels. Just like any past years, more and more companies have gone beyond the strict minimum requirement of the Law to sustain just and favourable work conditions, including recruitment, remuneration and compensation, human development, standards of living, health and safety and secure employment. A number of them follow the safety management principles, e.g.: OHSAS18001, to comply with safety regulations, improve safety facilities, raise safety awareness, improve occupational environment, and reduce occupational risks. They promote appropriate labour practices not only in their companies, but also downstream in their supply chain. Apart from carrying out programs or plans, companies did evaluate the effectiveness of these mechanisms to ensure it fits the organizational needs.

#### 4. The Environment (Env)

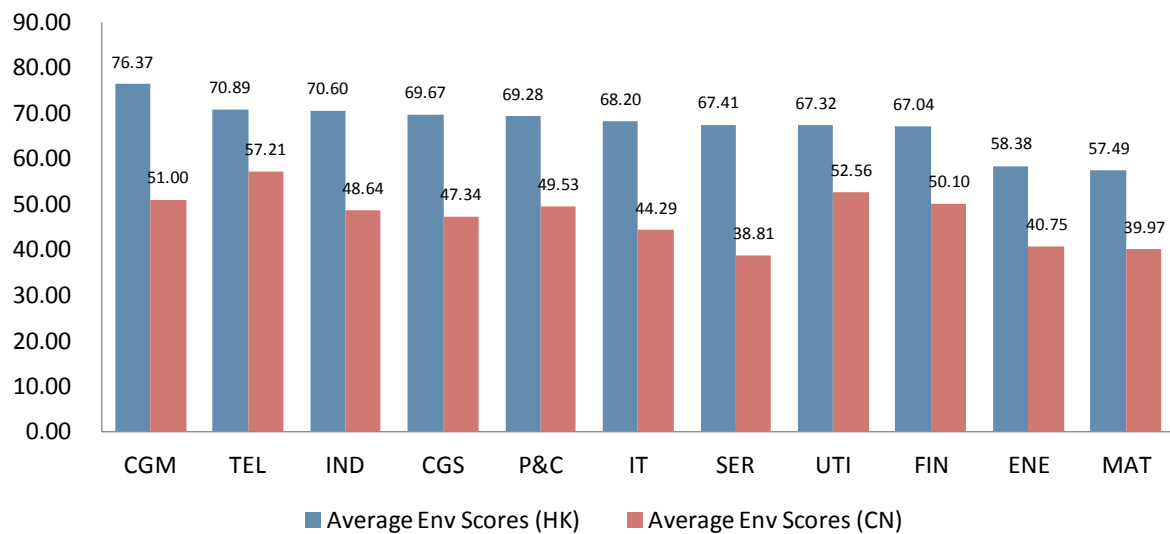


Chart 14 – Average Scores of The Environment by Sectors and Markets  
for HKQAA CSR Index Plus and HKQAA SRR

#### Good Practices Observed

More and more companies communicate and publish the progress of environmental management programmes, e.g.: ISO14001, to the public. The feedback from the reporting will drive further improvement. Majority of the companies implement measures to prevent pollution and minimize waste. Companies also realised that they need to promote the sustainable use of resources to meet the society's expectation. Environmental sustainability challenges, e.g. accelerating growth in global greenhouse gas emissions and biodiversity loss, were approached through partnership between companies and various NGOs from different angles. The potential effects of production and consumption are being assessed and reviewed by the management.

## 5. Fair Operating Practices (FOP)

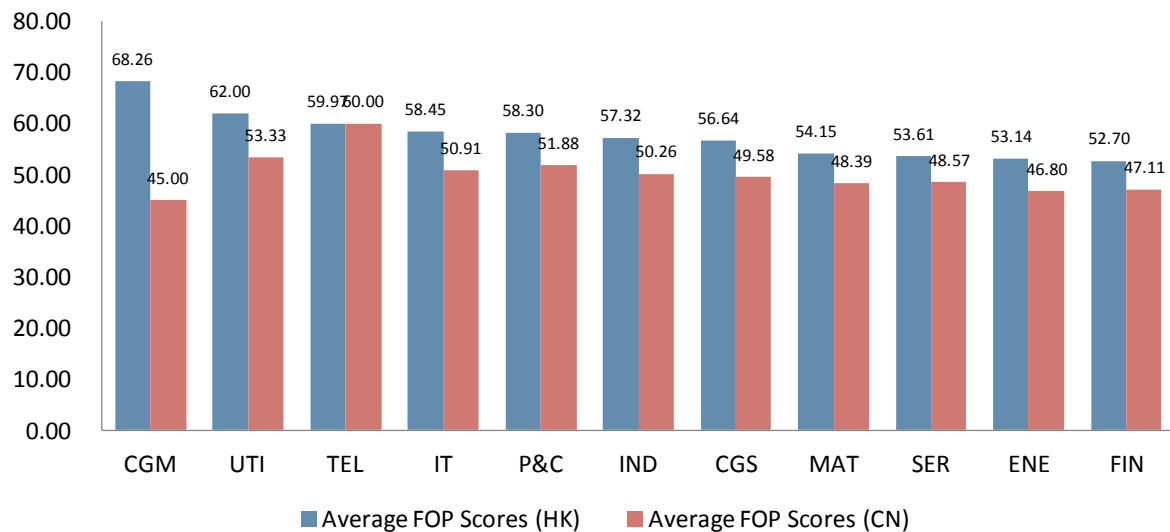


Chart 15 – Average Scores of Fair Operating Practices by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

### Good Practices Observed

Policies relating to Personal Data (Privacy) Ordinance, prevention of bribery and corruption, competition and whistle blowing were in place in majority of the companies for their employees and business partners in order to prevent business mis-conduct. Internal audits are conducted on a regular basis. The audit results are discussed and reviewed at the management meetings and reported to the Board. A number of improvement processes were raised and adopted in the exercises. Moreover, companies also promote social responsibility in the value chain including suppliers, logistics partners, etc so that more companies are aware of corporate social responsibility.

## 6. Consumer Issues (CI)

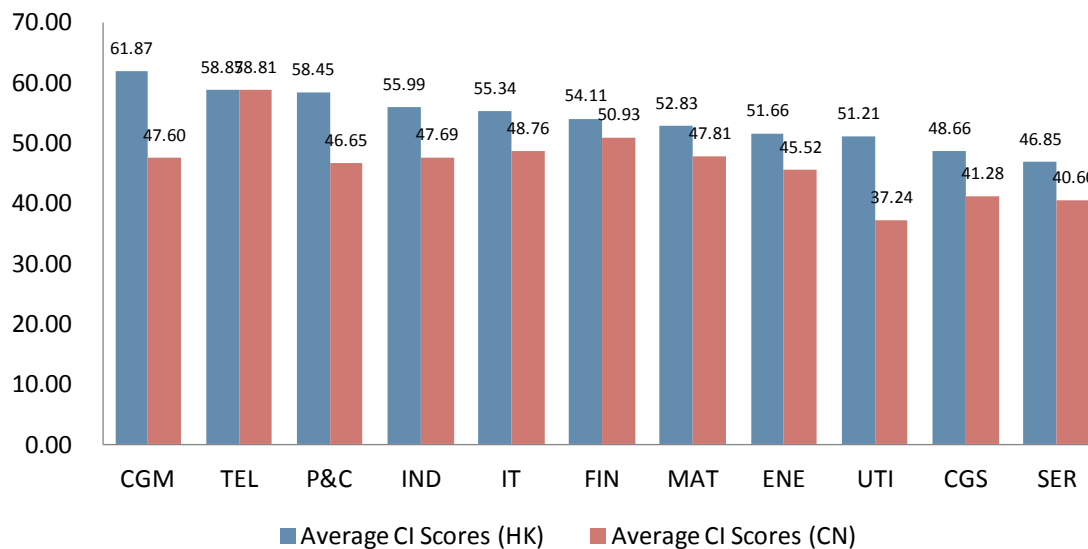


Chart 16 – Average Scores of Consumer Issues by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

### Good Practices Observed

With a view to evaluate and continuously improve the service quality, after-service surveys and mystery shopper visits by independent bodies are conducted. Well-performing companies publicize pledged Customer Services Standards annually together with its results. Track records were maintained for many years to monitor their service performance. Benchmarking on new customer service initiatives and service standards with industry leaders is arranged regularly for continuous service improvement.

## 7. Community Involvement and Development (CID)

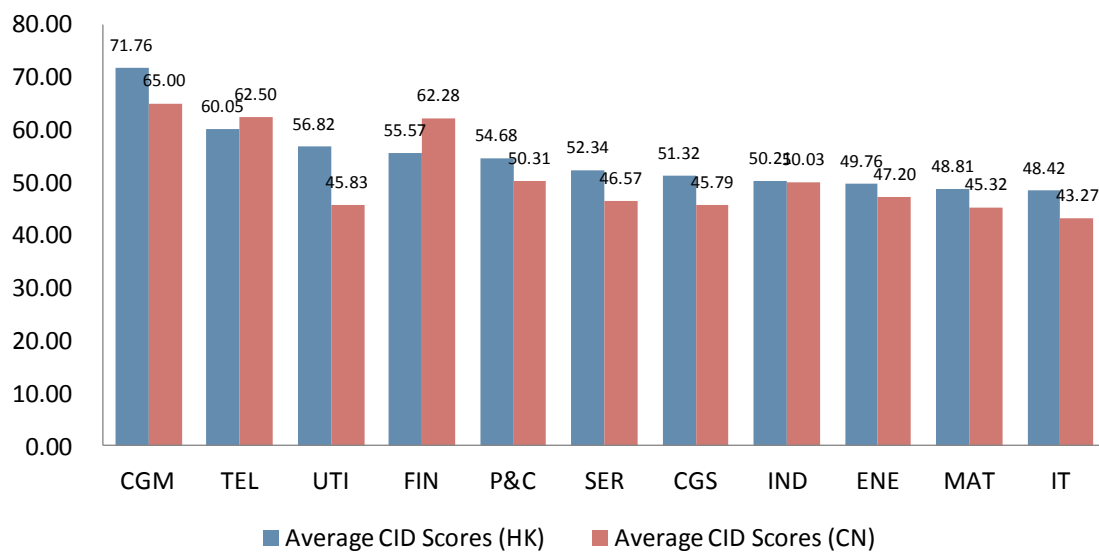


Chart 17 – Average Scores of Community Involvement and Development by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

### Good Practices Observed

Community Involvement and Development was the second worst area among 7 core subjects. Top performers went beyond making donations and identified stakeholders' needs with medium- to long-term objectives. Aiming to make a positive and lasting difference to the communities, companies established community involvement policy to govern their participation in and supporting to the community activities which are aligned with community needs.



## Conclusion and Way Forward – Investing CSR, Enhancing shareholder’s value

Corporations are aligning with global agreement such as the Paris Agreement and the United Nations Sustainable Development Goals which signals commitments to address the global challenges. Leaders believed that investing in CSR will enhance the shareholders’ value. Stakeholders have different expectations on sustainability. Consumers are demanding corporate responsibility and are willing to pay more for ethical products and services which minimizes the impact in the environment. Employees are expecting a better working place and will better perform in a company with positive engagement in sustainability and positive missions. Strategic partnerships developed through the creation of social capital network help to build trust, networks and norms that facilitate co-operations. Sustainability projects can attract investors which allow corporations to increase access to capital. By addressing these, stakeholders’ expectation can provide synergy and ultimately enhancing the shareholders’ value.



# Appendix A: HKQAA Sustainability Rating and Research Annual Review 2018

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## Foreword – Continuing the Qualitative Analysis of Companies’ Sustainability Management

Over the past decade, HKQAA has pioneered the promotion of sustainability, corporate social responsibility (CSR), and environment management, so as to further facilitate the sustainable development of Hong Kong’s economy, environment and society. The fifth annual HKQAA Sustainability Rating and Research once again assessed the quality of companies’ sustainability management using the scoring methodology based on ISO 26000 and GRI Standards.

### Executive Summary – HKQAA Sustainability Rating and Research

- HKQAA has reviewed the sustainability performance of 467 and 225 eligible listed companies in Hong Kong (HK) and mainland China (CN) respectively and measured the extent to which these companies respond to the stakeholders’ expectations and other sustainability challenges they face. The assessment data were provided to Hang Seng Indexes Company for its annual review of the Hang Seng Corporate Sustainability Index Series.
- The sustainability performance of HK companies was generally stronger than that of CN companies. The highest score among HK companies was AAA (2 companies) on a scale of AAA (highest) to D (lowest), while the highest score among CN companies was A (14 company). In summary, 465 HK companies (100%) achieved a rating of BBB- or above, and 187 out of 225 mainland China companies (83%) achieved the same level.
- The compares favorably to 2017, when 93% of HK companies and 83% of CN companies achieved these ratings. The performance of HK companies further improved while the CN companies remained steady.
- The average scores of all industries increased, with Conglomerates, Telecommunications and Properties & Construction displaying the strongest sustainability performance. Materials lags behind other industries.
- The performance in the Environment was generally stronger than in other subjects. The gap between Index Series constituents and non-constituents was especially large in the Environment (ENV) and Community Involvement and Development (CID).



## Assessment Process and Methodology<sup>3</sup>

As demonstrated in Diagram 1 below, at the beginning of each year Hang Seng Indexes Co. Ltd (Hang Seng Indexes) notifies HKQAA of the eligible listed companies for carrying out the annual research and rating exercise. HKQAA's Assessment Team (AT) then conducts preliminary web-based research and sends out the pre-filled questionnaires to individual companies for review, comments and/or confirmation. The Annual Sustainability Rating Report containing the final ratings as reviewed by the HKQAA Scoring and Rating Committee is submitted every year to Hang Seng Indexes to consider the selection of constituent companies for the "Hang Seng Corporate Sustainability Index Series".

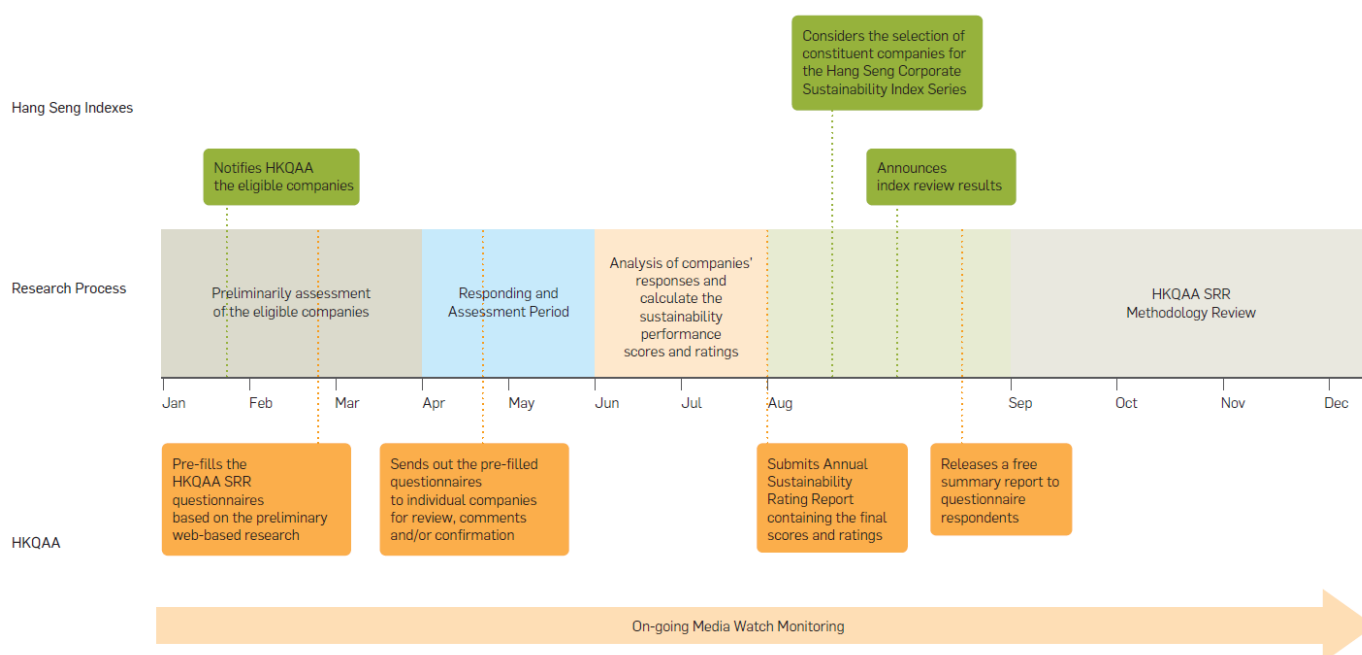


Diagram 1 – Timeline of the HKQAA Sustainability Rating and Research

The assessment model designed by HKQAA is consolidated into the practices under seven core subjects, i.e. *Corporate Governance, Human Rights, Labour Practices, The Environment, Fair Operating Practices, Consumer Issues, and Community Involvement and Development* dimensions. A company's level of maturity in managing the respective practices under these subjects is measured against a Plan-Do-Check-Act management approach. Accountability principles apply to reflect the company's inclusivity, materiality and responsiveness in achieving sustainability, as well as their governing accountability and completeness demonstrated in the reported data. Country and Industry risks in consideration of the operating location(s) and industry operation of a company are also assessed to give a more comprehensive rating on the sustainability performance. The final scores and ratings are compiled in association with the Media Watch (MW) on-going monitoring.

<sup>3</sup> Further information on HKQAA Sustainability Performance Assessment Methodology and Process are available on our dedicated platform: <https://srr.hkqaa.org/index.php?s=/Index/methodology.html>



## Assessment 2018 – Universe Statistics

### **Number of Universe Companies**

In 2018, HKQAA reviewed the sustainability performance of 692 eligible listed companies<sup>4</sup> for inclusion in the Hang Seng Corporate Sustainability Index series – 467 Hong Kong listed (HK) companies (including dual-listed companies) and 225 China A-Share listed (CN) companies. The majority of stocks are derived from the Consumer Goods (159 companies), Properties & Construction (114 companies) and Financials (91 companies) sectors<sup>5</sup>. The research process on the shortlisted companies was undertaken by HKQAA from 2014.

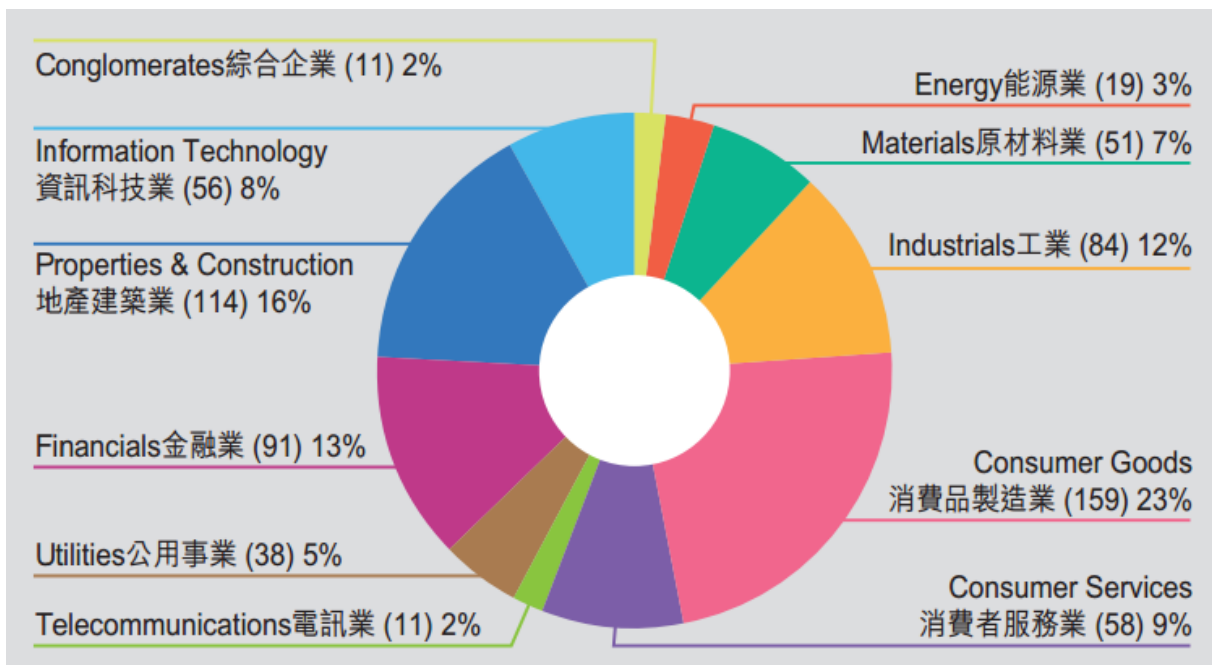


Chart 1 – Universe by Industry 2018

<sup>4</sup> Information on Hang Seng Indexes Company’s liquidity criteria for the Index series is available on the Hang Seng Indexes Company website: <http://www.hsi.com.hk/CorporateSustainability>.

<sup>5</sup> For details of the Hang Seng Industry Classification System (“HSICS”), please refer to <http://www.hsi.com.hk/HSI-Net/HSI-Net>.



## ***The Research Project and Company Engagement***

HKQAA's AT examined 774 sustainability/ CSR reports (including stand-alone and integrated reports) and made reference to their company public domain websites as well as local and international media reports, to assess their sustainability performance as a whole. We also reviewed annual reports of all assessed companies to understand their regulatory compliance and financial performance including revenues and segmental data. All companies were provided with an opportunity to offer feedback and supporting documents to HKQAA in the form of a questionnaire to supplement the publicly available information. This year the total number of responding companies has increased by over 28% compared to 2017. They offered very useful insights into the current management approaches to the sustainability opportunities and risks within businesses.

## ***Research Findings in 2018***

### Overall Performance by Market

According to the assessment results, Sustainability Ratings ranging from AAA (reliable) to D (at risk) as below are assigned to each eligible company. A plus (+) or minus (-) sign may be assigned to show relative standing within the rating categories.

Ratings	Descriptions
AAA	Reliable
AA	Stable
A	Satisfactory
BBB	Moderate
BB	
B	Unstable
CCC	Vulnerable
CC	At Risk
C	
D	

With the overall sustainability performance achieving a moderate level (BBB-), Hong Kong companies were revealed with slightly stronger performance than China companies. Among



the 692 assessed companies, all of them (692 companies) as shown in Chart 2 below received a moderate/satisfactory rating of BBB- or above.

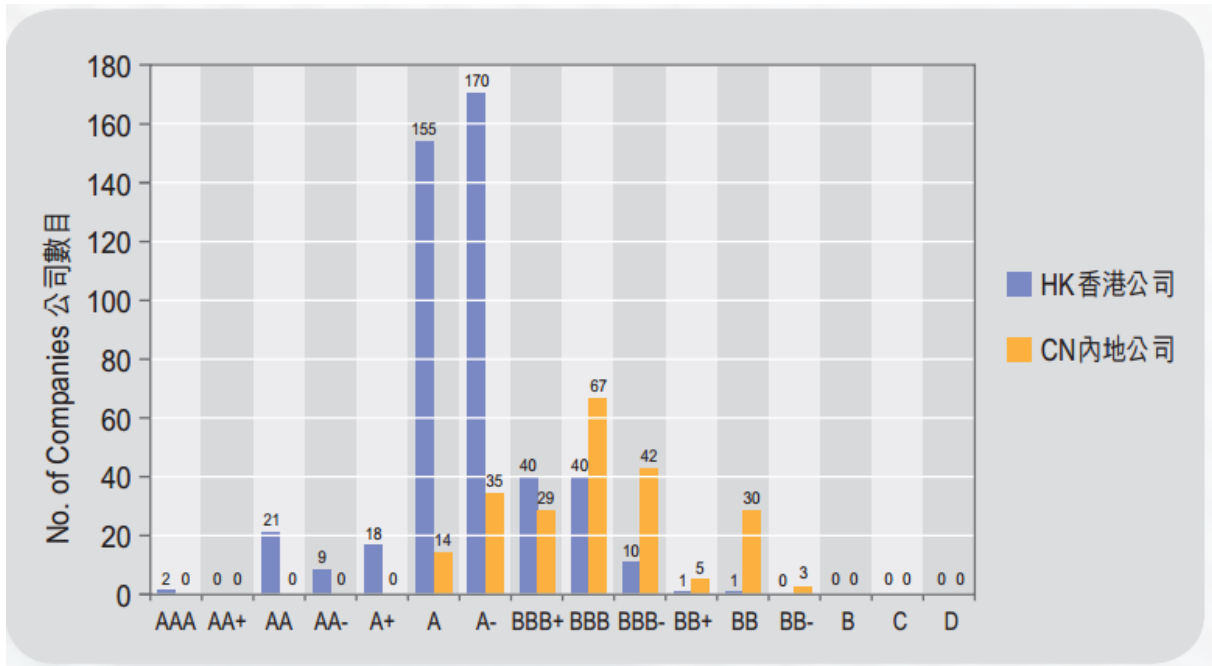


Chart 2 – Overall Performance by Market

The highest score among HK companies was AAA (2 companies) on a scale of AAA (highest) to D (lowest), while the highest score among CN companies was A (14 companies). 465 HK companies (100%) and 187 CN companies (83%) achieved a moderate/ satisfactory rating of BBB- or above, whereas, in 2017, only 93% of HK companies and 83% of CN companies achieved the same level. The performance of HK companies further improved while the CN companies remained steady. The average overall score of the 692 assessed listed companies increased by 7.8%, suggesting that there has been an improvement in the sustainability performance of the overall market.

In this year’s assessment, the sustainability performances of the assessed companies have shown improvement. Companies are becoming more enthusiastic in enhancing the reliability and comparability of their disclosures. As Hong Kong Exchanges and Clearing Limited (HKEx) implemented the policy of strengthening of the Environmental, Social and Governance Reporting Guide (the ESG Guide) in its Listing Rules to upgrade the disclosure obligation of the ESG Guide, all of the assessed companies have issued their ESG Guide in either annual report or stand-alone ESG reports. A majority of Hong Kong listed companies went beyond satisfying the minimum ESG disclosure requirement. We anticipate further improvement of the materiality of the reported data in future.



	No. of HK Companies			No. of CN Companies		
	2017	2018	Variance	2017	2018	Variance
AA+		2	↑			
AA	-		-	-		-
AA-	18	21	↑	-		-
A+	10	9	↓	-		-
A	14	18	↑	1		-↓
A-	63	155	↑	11	14	↑
BBB+	101	170	↑	7	35	↑
BBB	72	40	↓	6	29	↑
BBB-	127	41	↓	45	67	↑
BB+	33	11	↓	119	42	↓
BB	10		↓	4	5	↑
BB-	25		↓	33	30	↓
B	0		↓	1	3	↑
C	-		-	-		-
Total	-		-	-		-

Table 1 - Rating Distribution in 2017 and 2018





## Sector-level Performance

By analyzing the average scores of all industry sectors, Conglomerates, Telecommunications and Properties & Construction continued to display the strongest sustainability performance, while the Materials sectors obtained the poorest results.

Industry	CGM	TEL	P&C	UTI	FIN	IND	IT	CS	CG	ENE	MAT
<b>Maximum</b>	78.5	67.1	93.7	75.7	78.4	78.5	77.9	75.0	79.7	61.9	59.2
<b>(Rating)</b>	(AA)	(A+)	(AAA)	(AA)	(AA)	(AA)	(AA)	(AA)	(AA)	(A)	(A)
<b>Minimum</b>	44.3	49.8	35.3	36.6	40.9	36.8	36.0	37.0	32.7	37.9	35.3
<b>(Rating)</b>	(BBB-)	(BBB)	(BB)	(BB)	(BBB-)	(BB)	(BB)	(BB)	(BB-)	(BB)	(BB)
<b>Average</b>	65.1	59.2	56.3	54.6	54.2	53.7	53.3	52.1	51.4	50.7	49.2
<b>(Rating)</b>	(A+)	(A)	(A)	(A-)	(A-)	(A-)	(A-)	(A-)	(BBB+)	(BBB+)	(BBB)

CGM Conglomerates

TEL Telecommunications

P&C Properties and Construction

UTI Utilities

FIN Financials

IT Information Technology

IND Industrials

ENE Energy

CG Consumer Goods

CS Consumer Services

MAT Materials

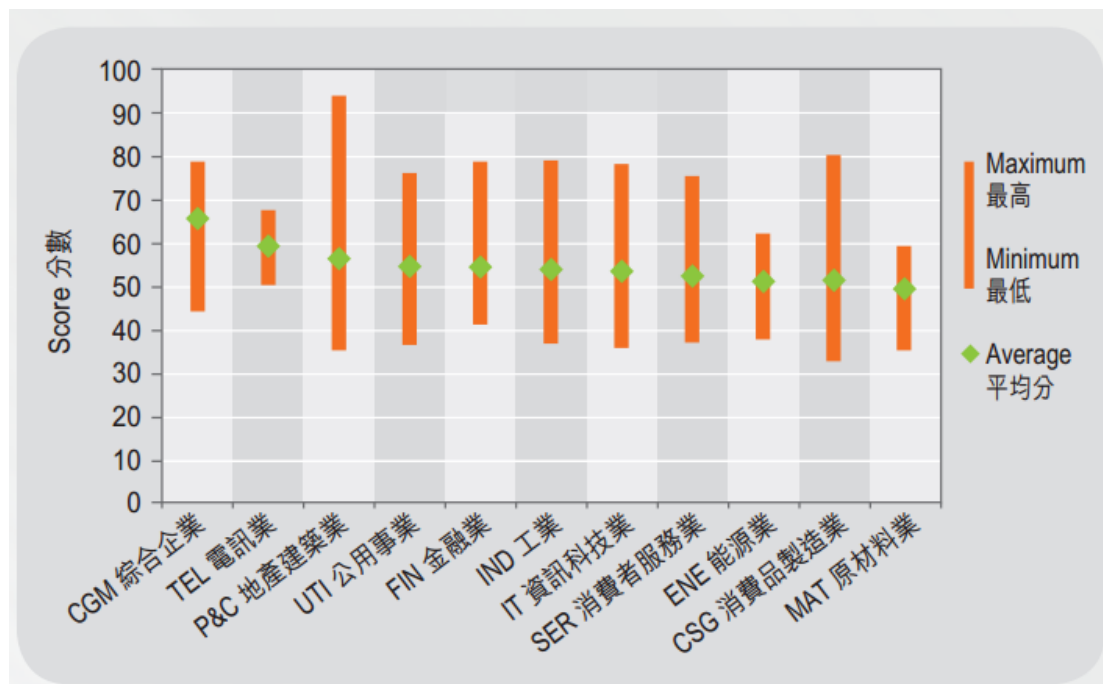


Chart 3 – Average Scores by Sectors 2018



## Subject Performance

In the current assessment model of HKQAA SRR, all companies are rated against 7 core subjects, i.e. *Corporate Governance (CG)*, *Human Rights (HR)*, *Labour Practices (LP)*, *The Environment (Env)*, *Fair Operating Practices (FOP)*, *Consumer Issues (CI)*, and *Community Involvement and Development (CID)*.

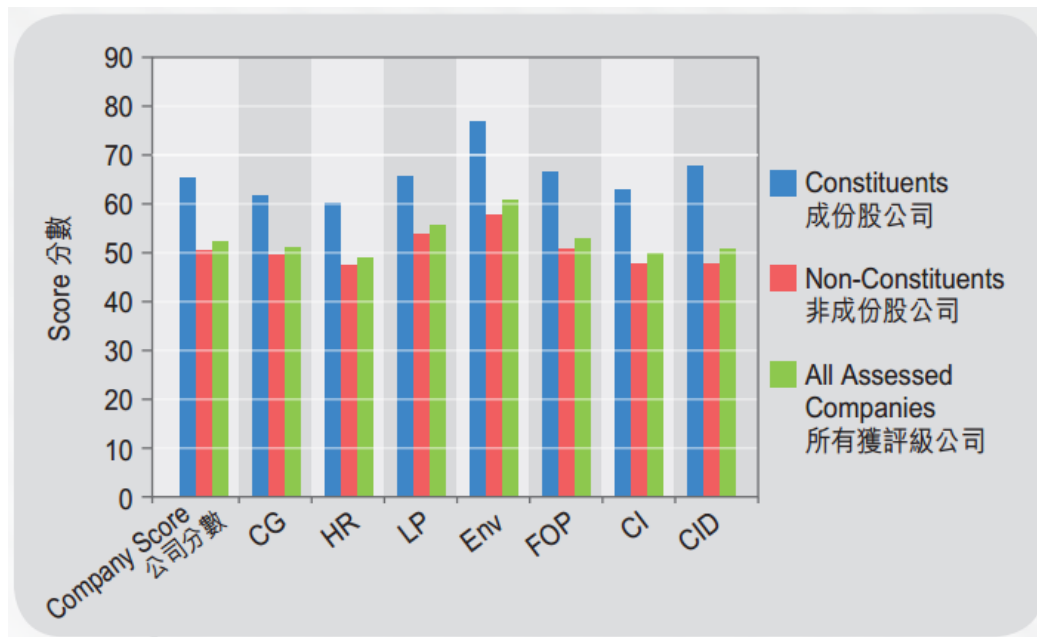


Chart 4 – Subject Performance of Hang Seng Corporate Sustainability Indexes  
Constituent versus Non-Constituents

By comparing the performance of Indexes Constituents to that of Non-Constituents, the Constituents outperformed the rest of the universe companies in all subjects as shown in the chart above. The gaps are especially large in Community Involvement and Development. Constituents are spending plentiful resources to develop sustainable programs in environmental preservation including recycling and minimizing waste. Community programs allow resources re-allocation to those who are in needed and develop social support networks between various sectors. In the short term, it enhances corporate brand branding and reputation. In the long term, it will lead to a better development of industry and a more caring society.

Due to the urging needs for operational transparency expected by various stakeholders and increasing number of regulations on employment protection, stronger overall performance in Corporate Governance, Human Rights and Labour Practices are resulted from the



consolidated sets of compliance controls adopted.

HKQAA further analyzed the subject performance of universe and 4 indexes, namely:

- Hang Seng Corporate Sustainability Index ("HSSUS")
- Hang Seng (China A) Corporate Sustainability Index ("HSCASUS")
- Hang Seng Corporate Sustainability Benchmark Index ("HSSUSB")
- Hang Seng (China A) Corporate Sustainability Benchmark Index ("HSCASUSB")

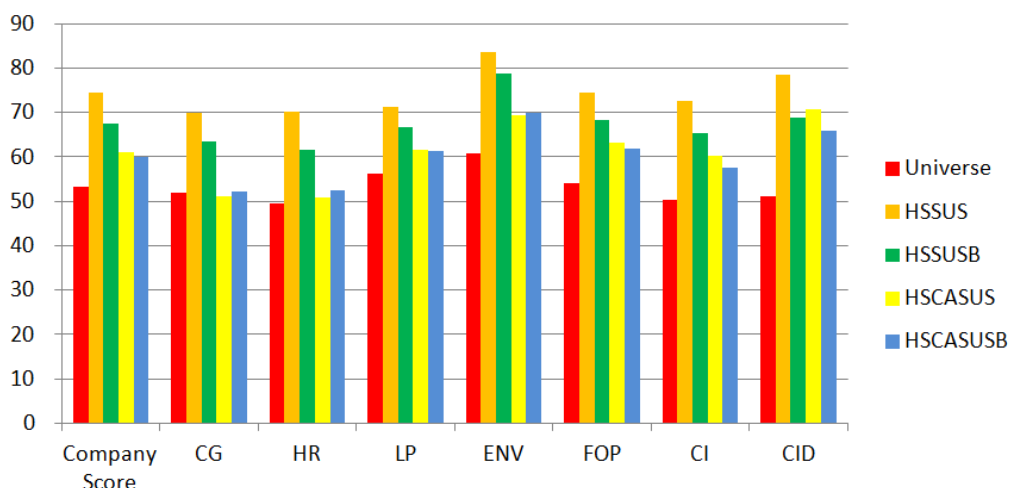


Chart 5 – Subject Performance of Universe and 4 Indexes

As shown in the chart above, similar to the previous year, HSSUS shows the best performance. Majority of the companies set long term sustainability targets and their leaders believe that these targets will enable them to shape a more sustainable future. The performance in HSCASUS keeps improving as more and more China companies realized the importance of sustainability and they are willing to spend more efforts and resources in this area. We foresee the sustainability performance of constituents in the Indexes will keep improving and ultimately contribute to a sustainable society.



## Way Forward: Expectation on big step forward on green finance

The Stock Exchange of Hong Kong Limited has amended its Listing Rules and the Environmental, Social and Governance Reporting Guide and upgraded the Key Performance Indicators in the "Environmental" Subject Area to "comply or explain" has been implemented since 2017. As seen from the findings of this year's research, companies' disclosure in this regard is more detailed. Moreover, many companies have disclosed corruption, personal data privacy and customer satisfaction. This shows that listed companies are increasingly focusing on the improvement of their sustainability performance and responding to the expectations of various stakeholders. In addition, more and more companies are actively fulfilling their sustainable development and are beginning to apply the concept of social capital to enhance social cohesion to foster the development of companies and community.

Moreover, in the past year, many companies have actively initiated the development of green finance in order to response to the green investor's expectation and cope with climate change. The project utilizes the green finance concept including waste management, renewable energy, improve energy efficiency and so on, to encourage environmental friendly investment in Hong Kong, China and around the world. In the future, we expect that more listed companies can perform better in sustainable development and build a sustainable society.



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