



HKQAA CSR Index Series and Sustainability Rating & Research 2016 Summary Report

May 2017



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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.

After 26 years of endeavors, 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 Beijing.

At present, HKQAA holds many accreditations for auditing Quality, Environmental, Occupational Health & Safety, 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, which is recognized by BSCI and WRAP, and we are approved for social auditing by Tesco (UK).

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.

As the Index entered its sixth year in 2014 and HKQAA started providing **Sustainability Rating and Research (SRR)** services to Hang Seng Indexes Company Limited (Hang Seng Indexes) in the same year, 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 issues¹. 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 600 annual reports about

¹ 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 600 listed companies in HKSAR and PRC which were assessed in HKQAA SRR on sustainability performance.

companies' regulatory compliance and financial performance including revenues and segmental data. HKQAA's Assessment Team examined 355 sustainability/ CSR reports (including stand-alone and integrated reports) and made reference to over 430 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 714 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”)², 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 2016 is also provided at *Appendix A: HKQAA Sustainability Rating and Research Annual Review 2016* for supplementary information.

² 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 2016, a total of 34 organizations showed their commitment of social responsibilities by participating in HKQAA CSR Index series (19 took part in HKQAA CSR Advocate Index and 15 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 15%. 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, 7 of them (3 from CSR Advocate Index and 4 from CSR Index Plus) are newly joined the schemes.

In HKQAA SRR 2016, the sustainability performance of 699 eligible listed companies was reviewed for inclusion in the Hang Seng Corporate Sustainability Index series – 464 Hong Kong companies (including dual-listed companies, classified as Hong Kong stocks) and 235 China Share companies.

HKQAA CSR Advocate Index

As shown in the chart below for distribution of CSR Advocate Index participants, 8 companies are derived from Properties and Construction sector; 4 of them are from Industrials sector; 3 of them are from Consumer Goods sector; 2 of them are from Consumer Services sector and 2 of them are Government Department.

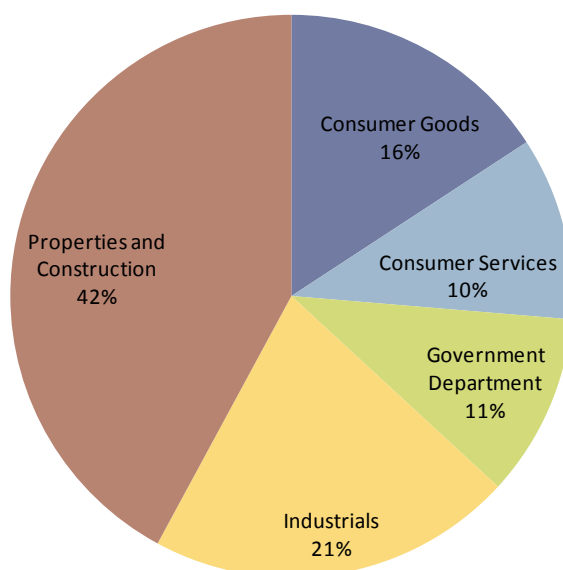


Chart 1 – Distribution of CSR Advocate Index Participants by Industrial Sector

HKQAA CSR Index Plus and HKQAA SRR

With reference to Chart 2 below, almost 80% of the HKQAA CSR Index Plus participants and assessed listed companies in HKQAA SRR are derived from 6 sectors, including Consumer Goods (163), Properties and Construction (108), Industrials (80), Financials (80), Information Technology (70), and Consumer Services (69).

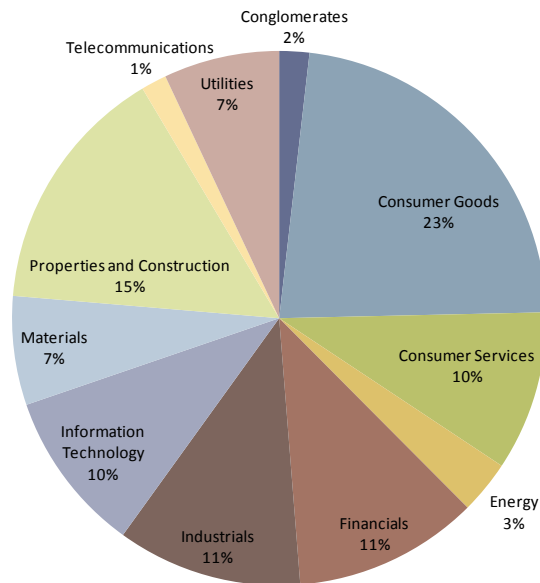


Chart 2 – Distribution of CSR Index Plus Participants and Assessed Companies in SRR by Industrial Sector

There were a total of 733 companies involved in HKQAA CSR Index series and Sustainability Rating Research in 2016 (including 19 HKQAA CSR Advocate Index participants, 15 HKQAA CSR Index Plus participants and 699 assessed listed companies in HKQAA SRR).

Participating Organizations of HKQAA CSR Advocate Index



A.S Watson Industries



ATAL Engineering Group
安樂工程集團

ATAL Engineering Group



進利工程有限公司
CHUN LEE ENGINEERING CO LTD

Chun Lee Engineering Company
Limited



Driltech Ground Engineering
Limited



FrieslandCampina (Hong Kong)
Limited



GP Batteries International Limited



Hanison Construction Holdings
Limited



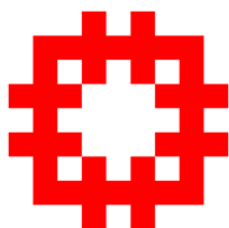
Hip Hing Engineering Company
Limited



Hong Kong Trade Development
Council



Housing Department
(Development and Construction
Division)



Housing Department
(Estate Management Division)



Hsin Chong Group Holdings
Limited



Jumbo Orient Contracting Limited



Paul Y. Engineering Group Limited



Shinryo (Hong Kong) Limited



Shinryo Technical Services
Limited



瑞安建業
SOCAM DEVELOPMENT

瑞安承建有限公司
Shui On Building Contractors Limited
瑞安建業有限公司成員 A member of SOCAM Development Limited

Shui On Building Contractors
Limited



順源建築有限公司
Shun Yuen Construction Company Limited

Shun Yuen Construction Company
Limited



棠記工程有限公司
TONG KEE ENGINEERING LIMITED

Tong Kee Engineering Limited

Participating Organizations of HKQAA CSR Index Plus



Alliance Construction Materials
Limited



Café de Coral Holdings Limited



China Everbright International
Limited



CLP Holdings Limited



Crystal Group



Fuji Xerox (Hong Kong) Limited



環球貿易廣場
INTERNATIONAL
COMMERCE CENTRE

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



Leo Paper Group (Hong Kong)
Limited



Megastrength Security Service
Co., Ltd.



New World Development
Company Limited



NWS Holdings Limited



Sa Sa International Holdings
Limited



Shun Tak Holdings Limited



The Wharf (Holdings) Limited



Well Born Real Estate
Management Limited

Overall Performance in 2016

HKQAA CSR Advocate Index

In summary, the average score of HKQAA CSR Advocate Index was 4.73 out of 5 in 2016 and recorded a 2.6% increase as compared to year 2015 and 5.1% increase compared to the initial year 2009. The trend demonstrated organizations' continuous endeavours to encourage a positive impact on the environment and stakeholders including employees, consumers, investors and communities. 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 2016 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. Community involvement and development scores the lowest among all the core areas.

Table 1 shows the score differences for year 2015 and 2016.

	Average Score in 2015	Average Score in 2016	Trend and % change
Organizational Governance	4.63	4.73	↑ 2.16%
Human Rights	4.61	4.69	↑ 1.74%
Labour Practices	4.83	4.95	↑ 2.48%
The Environment	4.58	4.68	↑ 2.18%
Fair Operating Practices	4.58	4.67	↑ 1.97%
Consumer Issue	4.60	4.75	↑ 3.26%
Community Involvement and Development	4.42	4.65	↑ 5.20%

Table 1 – Average Scores of the 7 CSR core subjects in 2015 and 2016 for HKQAA CSR Advocate Index

According to Table 1, although Community Involvement and Development is the least score among all the seven core subjects, it is the biggest area of improvement for this year, accounted for 5.2% increase compared to 2015. This trend showed the company has allocated more resources on reaching community and developing the society. More work still need to be done with rising expectation from the society on this aspect.

As illustrated in the table below, improvements have been observed on all seven core subjects of CSR compared to the initial year 2009. It is an encouraging outcome as more and more participants are aware of CSR. Participants spent most 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.

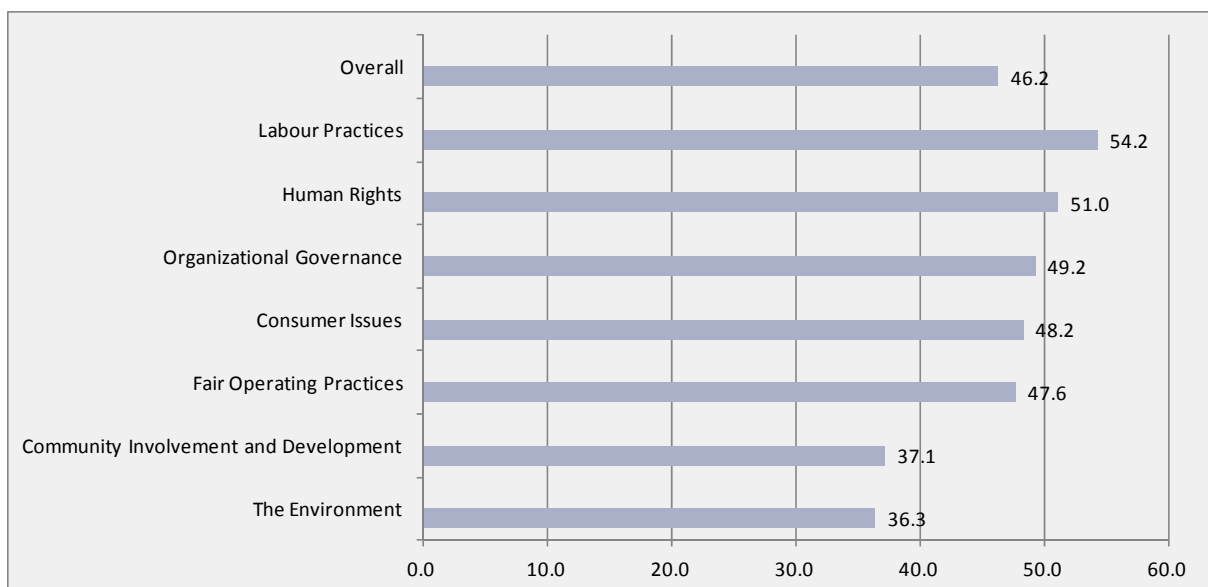
	Average Score in 2009	Average Score in 2016	Trend and % change
Organizational Governance	4.52	4.73	↑ 4.65%
Human Rights	4.65	4.69	↑ 0.86%
Labour Practices	4.70	4.95	↑ 5.32%
The Environment	4.35	4.68	↑ 7.59%
Fair Operating Practices	4.29	4.67	↑ 8.86%
Consumer Issue	4.61	4.75	↑ 3.04%
Community Involvement and Development	4.40	4.65	↑ 5.68%

Table 2 – Average Scores of the 7 CSR core subjects in 2009 and 2016 for HKQAA CSR Advocate Index

HKQAA CSR Index Plus and HKQAA SRR

In 2016, the average score of HKQAA CSR Index Plus and HKQAA SRR was 46.2 out of 100, representing a decrease of 0.2% as compared to last year. In the 699 assessed company in SRR, part of the companies is new joiners who are not familiar with the evaluation process. Therefore, they are not performed up to expectation.

As accountability, country and industry risks and media exposures 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. Similar to last year, stronger overall performance in Labour Practices, Human Rights and Organizational Governance were observed due to the increasing number of regulations on employment protection and the sets of compliance controls adopted especially for the listed companies assessed in HKQAA SRR. In general, a greater effort should be made in three areas, namely The Environment, Community Involvement and Development and Fair Operating Practices.



**Chart 4 – Average Scores of the 7 CSR core subjects in 2016
for HKQAA CSR Index Plus and HKQAA SRR**

As illustrated in the table below, improvements have been observed in five out of the seven core subjects of CSR between year 2015 and 2016. However, there is a minor decrease at 0.21% on average. In regards to the Environment area, participants are under-performed and it has decreased by 5.71%. This trend is related to the company portfolio mentioned previously. Participants may need to work harder in the future to maintain the similar level for CSR.

	Average Score in 2015	Average Score in 2016	Trend and % change
Organizational Governance	49.1	49.2	↑ 0.20%
Human Rights	50.6	51.0	↑ 0.79%
Labour Practices	53.9	54.2	↑ 0.56%
The Environment	38.5	36.3	↓ 5.71%
Fair Operating Practices	47.0	47.6	↑ 1.28%
Consumer Issues	48.3	48.2	↓ 0.21%
Community Involvement and Development	36.7	37.1	↑ 1.09%

Table 3 – Average Scores of the 7 CSR core subjects in 2015 and 2016 for HKQAA CSR Index Plus and HKQAA SRR

As illustrated in the table below, improvements have been observed on all seven core subjects of CSR compared to the initial year 2014. For a company to be sustainable in the long term, it is inevitably that CSR cannot be neglected.

	Average Score in 2014	Average Score in 2016	Trend and % change
Organizational Governance	48.5	49.2	↑ 1.44%
Human Rights	49.9	51.0	↑ 2.20%
Labour Practices	52.2	54.2	↑ 3.83%
The Environment	34.0	36.3	↑ 6.76%
Fair Operating Practices	47.2	47.6	↑ 0.85%
Consumer Issues	46.7	48.2	↑ 3.21%
Community Involvement and Development	35.3	37.1	↑ 5.10%

Table 4 – Average Scores of the 7 CSR core subjects in 2014 and 2016 for HKQAA CSR Index Plus and HKQAA SRR

Sector-Level Performance in 2016

HKQAA CSR Advocate Index

As shown in the chart below, Government Department was the best performing sector in 2016 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.

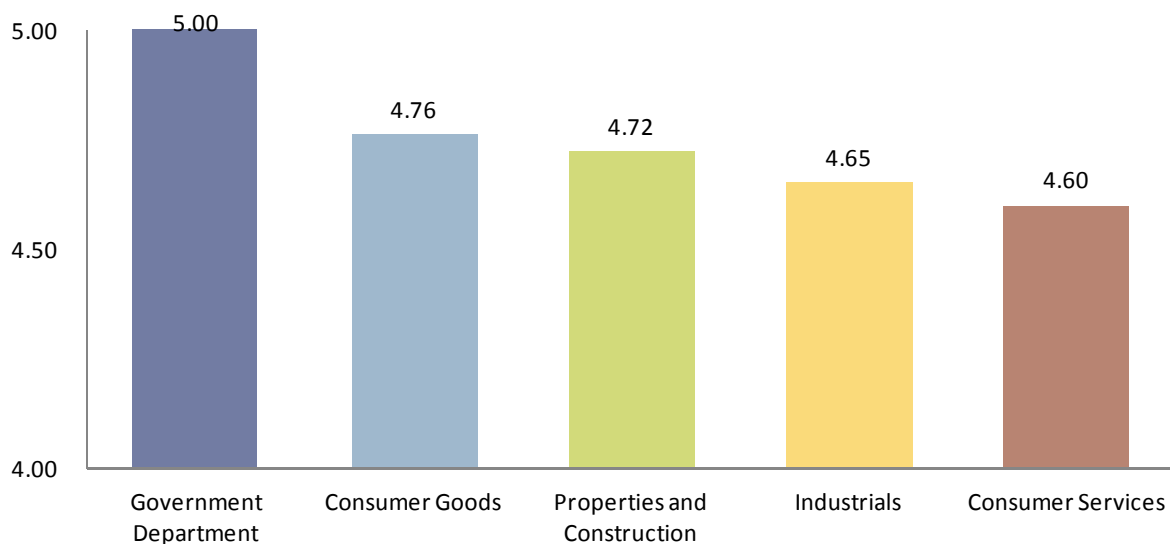
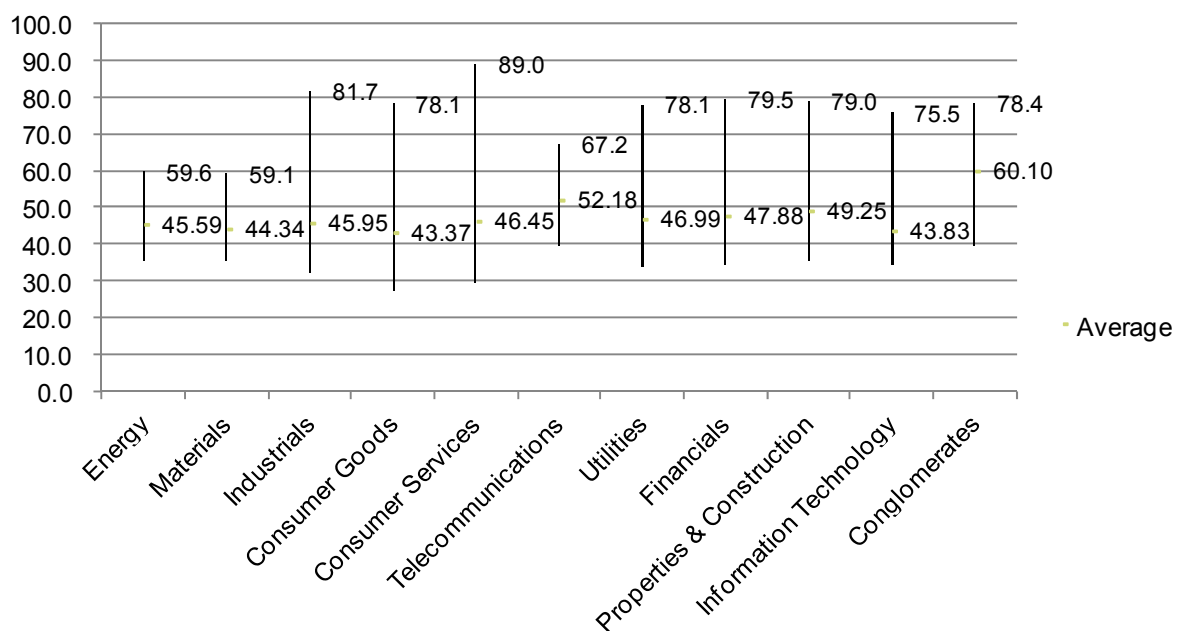


Chart 5 – Average Scores by Sectors 2016 for HKQAA CSR Advocate Index

HKQAA CSR Index Plus and HKQAA SRR

The chart 6 below gives the overview of the maximum, minimum and average scores by industrial sectors for HKQAA CSR Index Plus and HKQAA SRR 2016. Looking at the average scores of all industries, Conglomerates, Telecommunications and Properties & Construction sectors demonstrated the strongest sustainability performance. As the assessment of HKQAA SRR includes also a number of companies in China, Chart 7 was prepared to show the average overall scores by sector in the Hong Kong and China markets.



**Chart 6 – Maximum, Minimum and Average Scores by Sectors 2016
for HKQAA CSR Index Plus and HKQAA SRR**

Comparing the sustainability performance of the Hong Kong companies to that of the companies in China, we observed that the Hong Kong companies outperformed the China ones in all sectors. The gaps are especially large in Conglomerates and Utilities sectors. The financials industry in China performed the best and their rating is close to the Hong Kong companies.

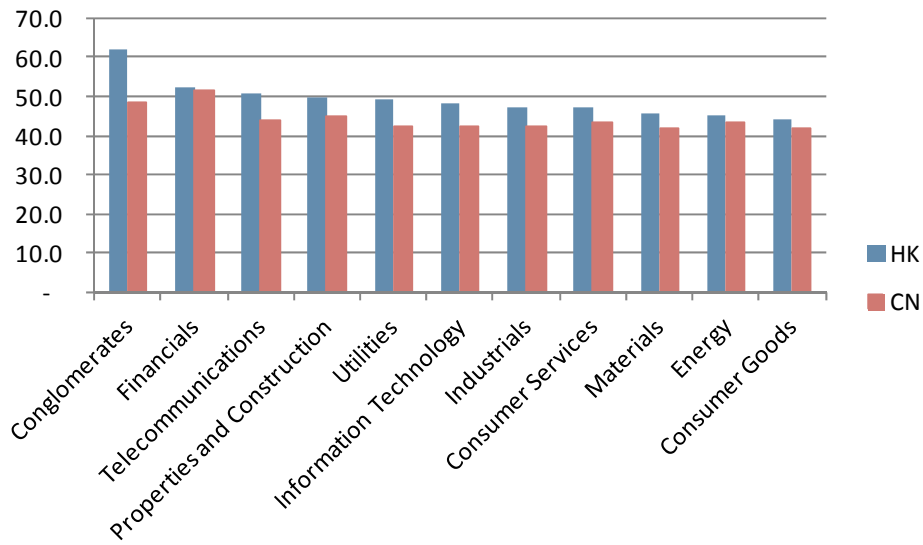


Chart 7 – Average Overall Scores by Sectors and Markets 2016
for HKQAA CSR Index Plus and HKQAA SRR

Subject Performance in 2016

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 2016, the following CSR initiatives continued to drive the improving CSR performance. In general, the average scores for all sectors increased compared to year 2015.

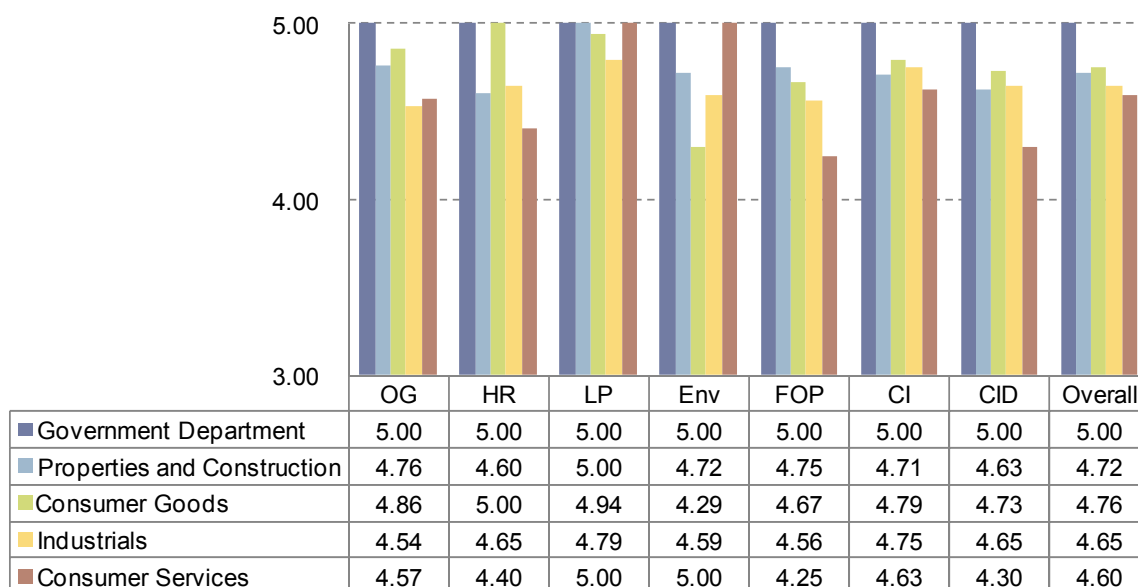


Chart 8 – Subject Scores of Various Sectors 2016 for HKQAA CSR Advocate Index

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)

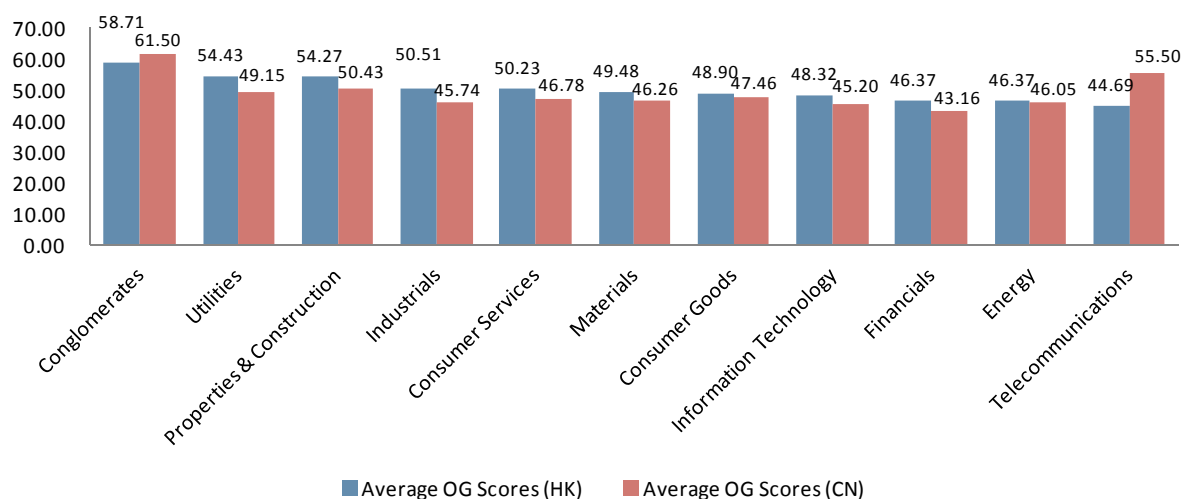


Chart 9 – Average Scores of Organizational Governance by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

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)

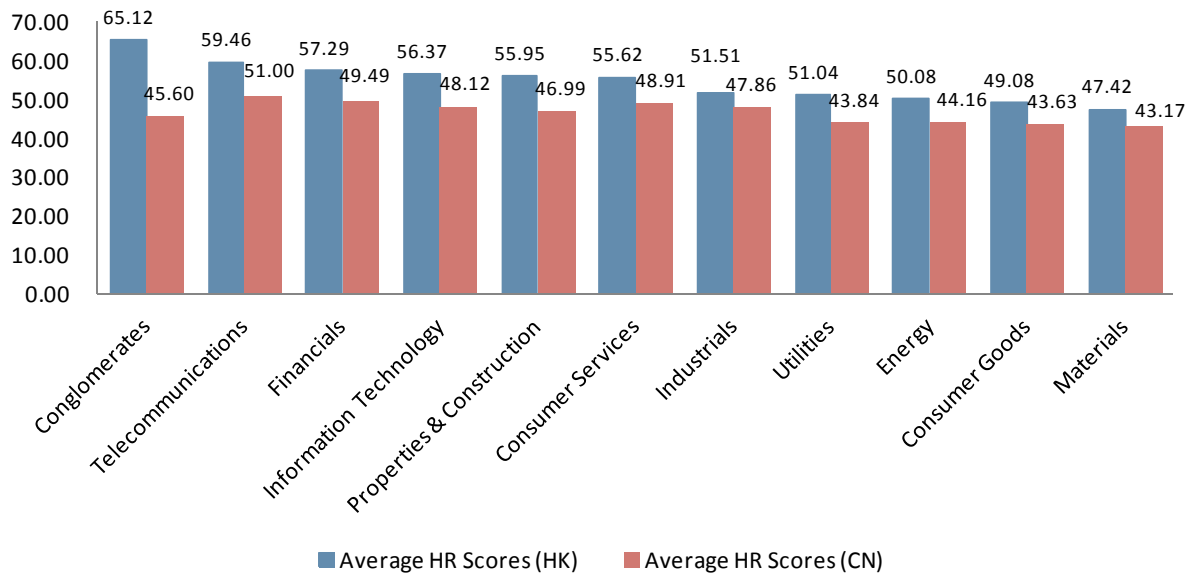


Chart 10 – Average Scores of Human Rights by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

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)

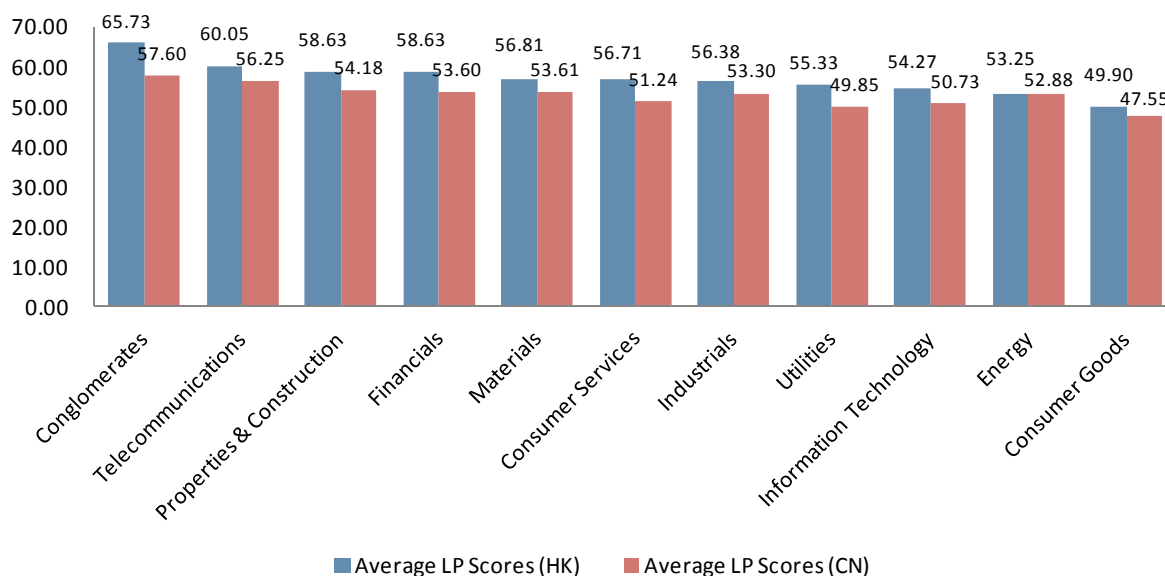


Chart 11 – Average Scores of Labour Practices by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

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)

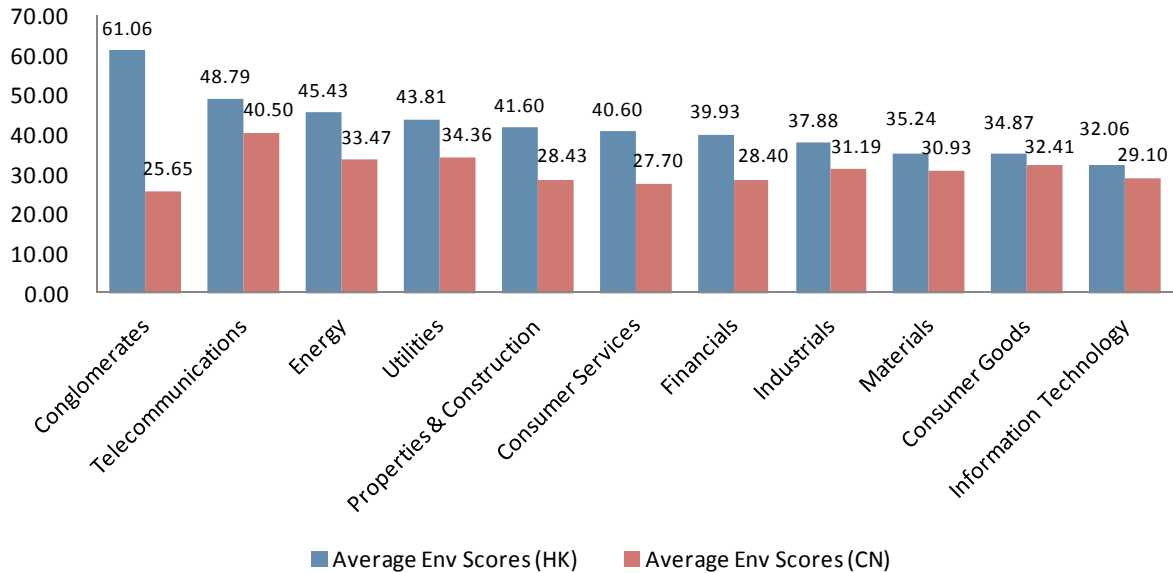


Chart 12 – Average Scores of The Environment by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

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)

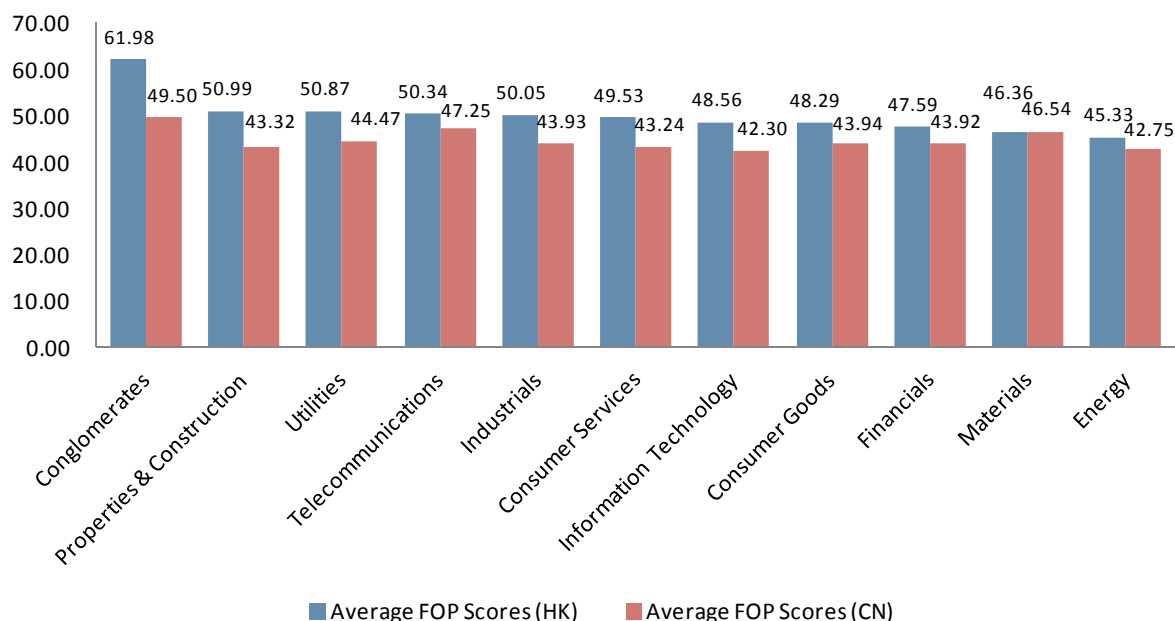


Chart 13 – Average Scores of Fair Operating Practices by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

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)

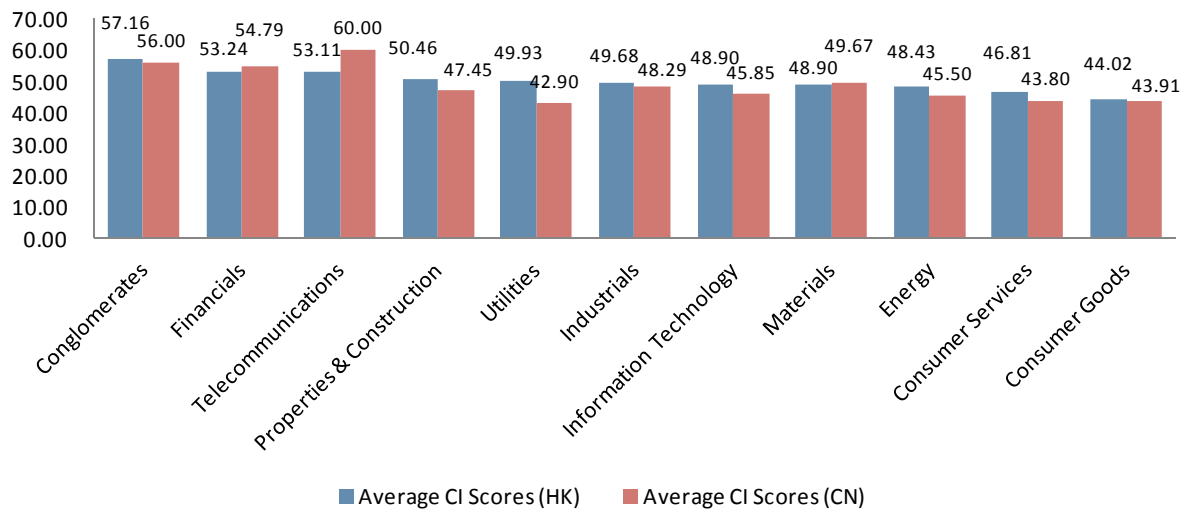


Chart 14 – Average Scores of Consumer Issues by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

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)

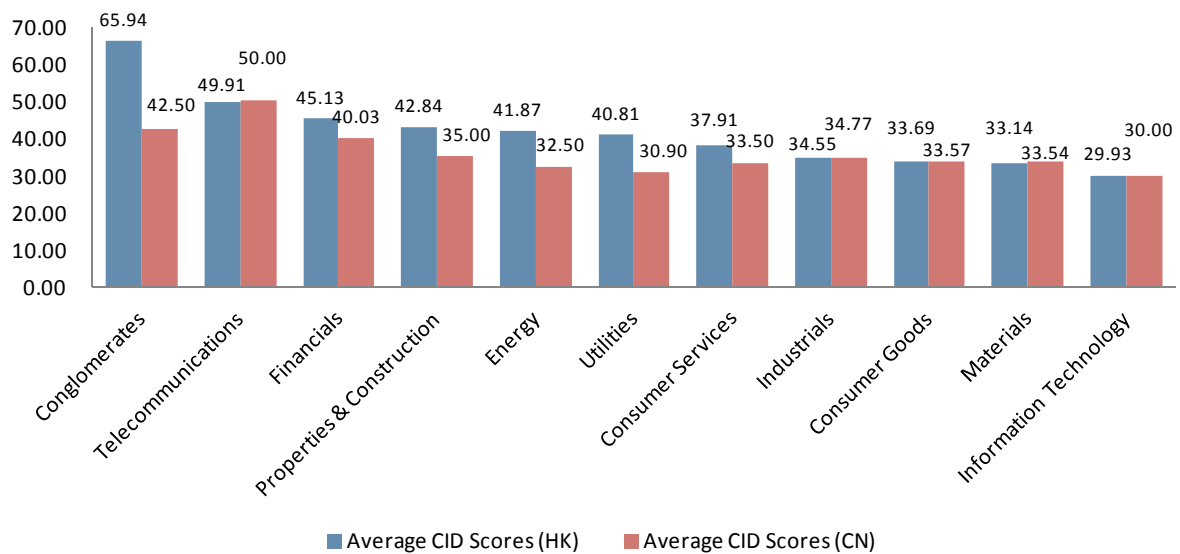


Chart 15 – Average Scores of Community Involvement and Development by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

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, Investing the business future

Investing in Corporate Social Responsibility (CSR) is a subject to an ongoing debate over the last decade. A meta-analysis of 52 empirical studies by Orlitzky et al. (2003) finds a positive association between corporate social performance (CSP) and corporate financial performance (CFP). Similar findings are reported in other studies. Van Beurden & Goessling (2008) find that 68% of the included studies show a significant positive result between Corporate Social Performance and Corporate Financial Performance, 26% shows no relationship and 6% a negative relationship. Margolis & Walsh (2003: 277) examine 127 empirical studies between 1972 and 2002 and “the findings suggests there is a positive association between a company’s social performance and its financial performance.” Corporate irresponsible behavior has also been found to lead to negative corporate financial performance (Engelen & van Essen, 2011). Regarding to those studies above that investing CSR is a key kernel to drive new era business development.



Appendix A: HKQAA Sustainability Rating and Research Annual Review 2016

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Foreword – Continuing the Qualitative Analysis of Companies’ Sustainability Management

In the recent decade, HKQAA has always been the advocate in promoting sustainability, corporate social responsibility (CSR), and environment management, so as to further the sustainable development of Hong Kong’s economy, environment and society. The third annual year of the HKQAA Sustainability Rating and Research once again assessed the quality of companies’ sustainability management using the scoring methodology based on ISO 26000 and GRI G4.

Executive Summary – HKQAA Sustainability Rating and Research

- HKQAA has reviewed the sustainability performance of 699 eligible listed companies in Hong Kong (HK) and mainland China (CN) 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 AA (21 companies) on a scale of AAA (highest) to D (lowest), while the highest score among CN companies was A+ (1 company). In summary, 274 out of 464 HK companies (59%) achieved a rating of BBB- (Moderate/ Satisfactory) or above, and 146 out of 235 mainland China companies (62%) achieved the same level.
- The number of companies which received a moderate rating of BB or below also decreased from 32% to 29% as compared to 2015. More and more companies are willing to go beyond the legal requirements when addressing sustainability issues.
- Looking at the average score of all industry sectors, Conglomerates, Telecommunications and Properties & Construction display the strongest sustainability performance, while the Consumer Goods sector lag behind all other industries.
- Similar to 2015, strong general performance in Corporate Governance, Human Rights and Labour Practices was resulted from the consolidated sets of compliance controls adopted corresponding to stakeholders’ expectations and the standing regulations governing listed companies.



Assessment Process and Methodology³

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".

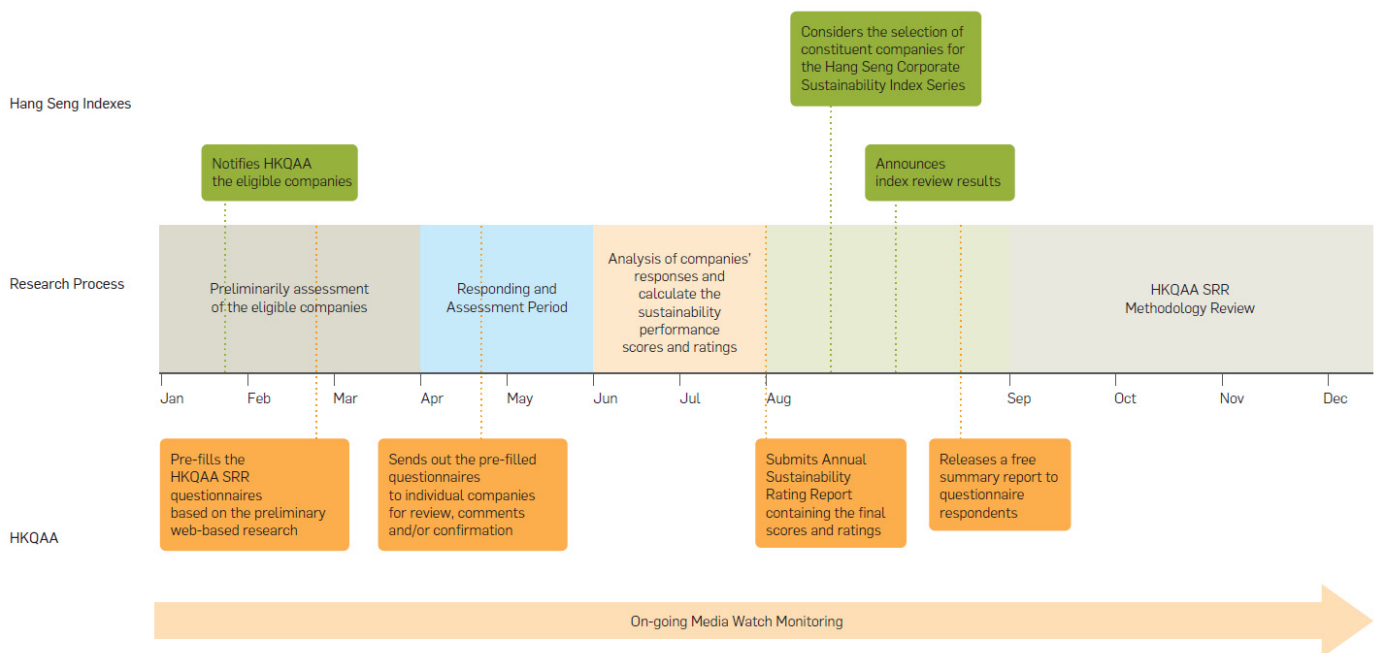


Diagram 1 – Timeline of the HKQAA Sustainability Rating and Research

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.

³ 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 2016 – Universe Statistics

Number of Universe Companies

In 2016, HKQAA reviewed the sustainability performance of 699 eligible listed companies⁴ for inclusion in the Index series – 464 Hong Kong companies (dual-listed companies are classified as Hong Kong stocks) and 235 China A-Share companies. The majority of stocks are derived from the Consumer Goods (161 companies), Properties & Construction (105 companies) and Financials (80 companies) sectors⁵. The research process on the shortlisted companies was undertaken by HKQAA from 2014. All 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 webpage.

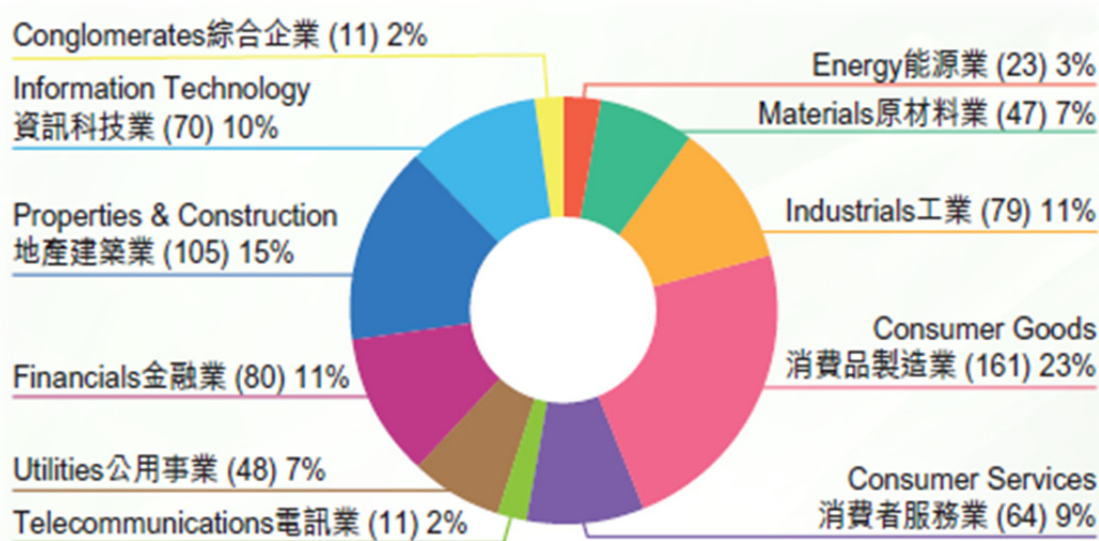


Chart 1 — Universe by Industry 2016
圖表1 — 2016年研究之上市公司行業分布

⁴ 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>.

⁵ 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 355 sustainability/ CSR reports and made reference to over 430 company public domain websites so as to assess their sustainability performance as a whole. We also reviewed more than 650 annual reports to understand the companies' 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 increased by 10% compared to 2015. They offered very useful insights into the current management approaches to the sustainability opportunities and risks within businesses.

Research Findings in 2016

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 699 assessed companies, around 60% of them (420 companies) as shown in Chart 2 below received a moderate/satisfactory rating of BBB- or above.

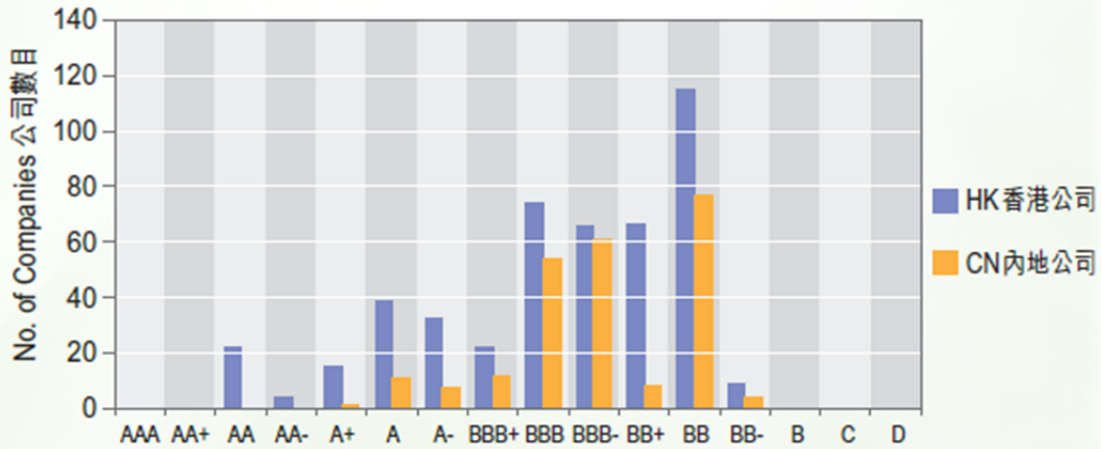


Chart 2 — Overall Performance by Market
圖表2 — 整體市場表現

Chart 2 – Overall Performance by Market

The highest score among HK companies was AA (21 companies) on a scale of AAA (highest) to D (lowest), while the highest score among CN companies was A+ (1 company). 274 HK companies (59%) and 146 CN companies (62%) achieved a moderate/ satisfactory rating of BBB- or above, whereas, in 2015, only 55% of HK companies and 60% of CN companies achieved the same level. The number of companies which received a moderate rating of BB or below also decreased from 32% to 29% as compared to last year.

The companies with improving sustainability performance were found making a great effort in enhancing the reliability and comparability of their disclosures. In December 2016, Hong Kong Exchanges and Clearing Limited (HKEx) announced the 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. Issuers must state whether they have complied with the “comply or explain” provisions set out in the ESG Guide for the relevant financial year in their annual reports or in separate ESG reports. We anticipate further improvement of the materiality of the reported data in future.



	No. of HK Companies			No. of CN Companies		
	2015	2016	Trend	2015	2016	Trend
AA+						
AA	20	21	↑			
AA-	11	4	↓			
A+	14	15	↑	-	1	↑
A	49	39	↓	14	11	↓
A-	31	33	↑	7	7	—
BBB+	27	22	↓	11	12	↑
BBB+	50	74	↑	58	54	↓
BBB-	50	66	↑	49	61	↑
BB+	69	66	↓	5	8	↑
BB	124	115	↓	82	77	↓
BB-	10	9	↓	4	4	—
B						
C						
Total	455	464		230	235	

Table 1 - Rating Distribution in 2015 and 2016



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 Information Technology and Consumer Goods sectors obtained the poorest results. The range of scores and ratings in Consumer Goods is the widest among all sectors.

Industry Code	CGM	TEL	P&C	FIN	UTI	ENE	IND	MAT	SER	IT	CSG
Maximum (Rating)	78.3 (AA)	67.2 (A+)	79 (AA)	79.5 (AA)	78.1 (AA)	59.6 (A)	74.3 (AA)	59.1 (A)	77.6 (AA)	75.5 (AA)	77.7 (AA)
Minimum (Rating)	39.6 (BB+)	39.6 (BB+)	35.2 (BB)	34.6 (BB)	33.8 (BB-)	35.6 (BB)	32.4 (BB-)	35.6 (BB)	29.6 (BB-)	34.6 (BB)	27.2 (BB-)
Average (Rating)	57.1 (A)	52.2 (A-)	48.5 (BBB)	47.9 (BBB)	45.7 (BBB)	45.6 (BBB)	45.5 (BBB)	44.3 (BBB-)	44.2 (BBB-)	43.8 (BBB-)	43.0 (BBB-)

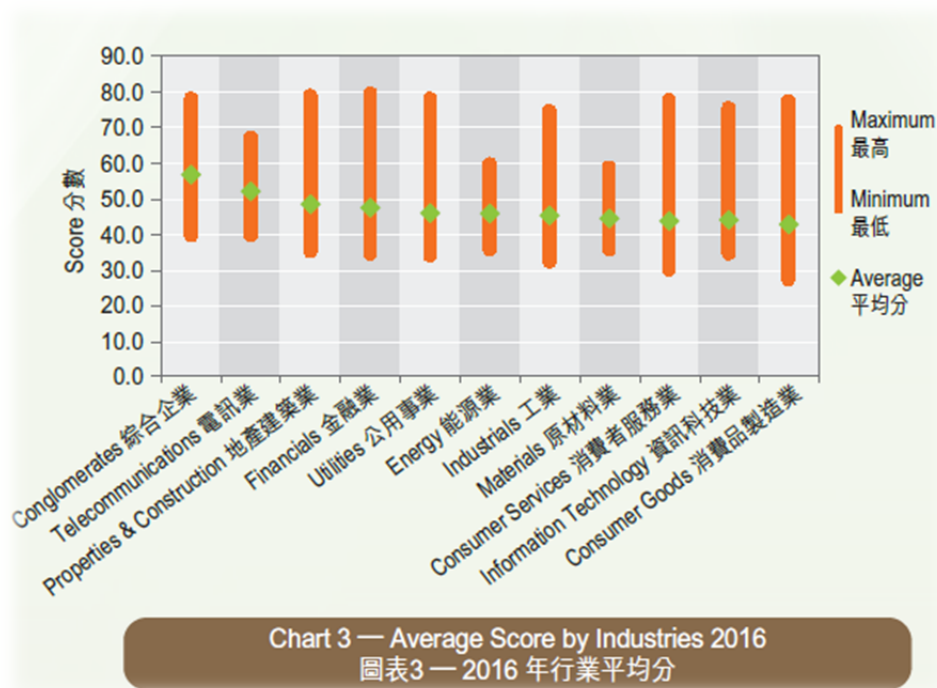


Chart 3 – Average Scores by Sectors 2016



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)*.

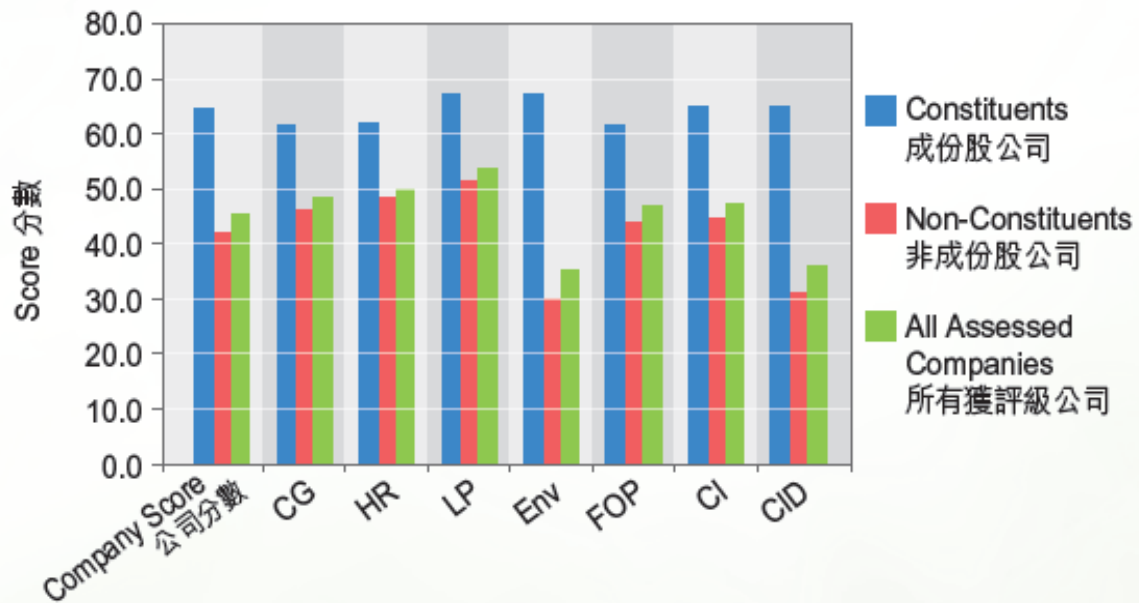


Chart 4 — Subject Performance of Assessed Companies
圖表4 — 獲評級公司的核心指標分數比較

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. Similar to last year, the gaps are especially large in Environment and Community Involvement and Development, reflecting the plentiful resources put into these areas by the top performers. 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")

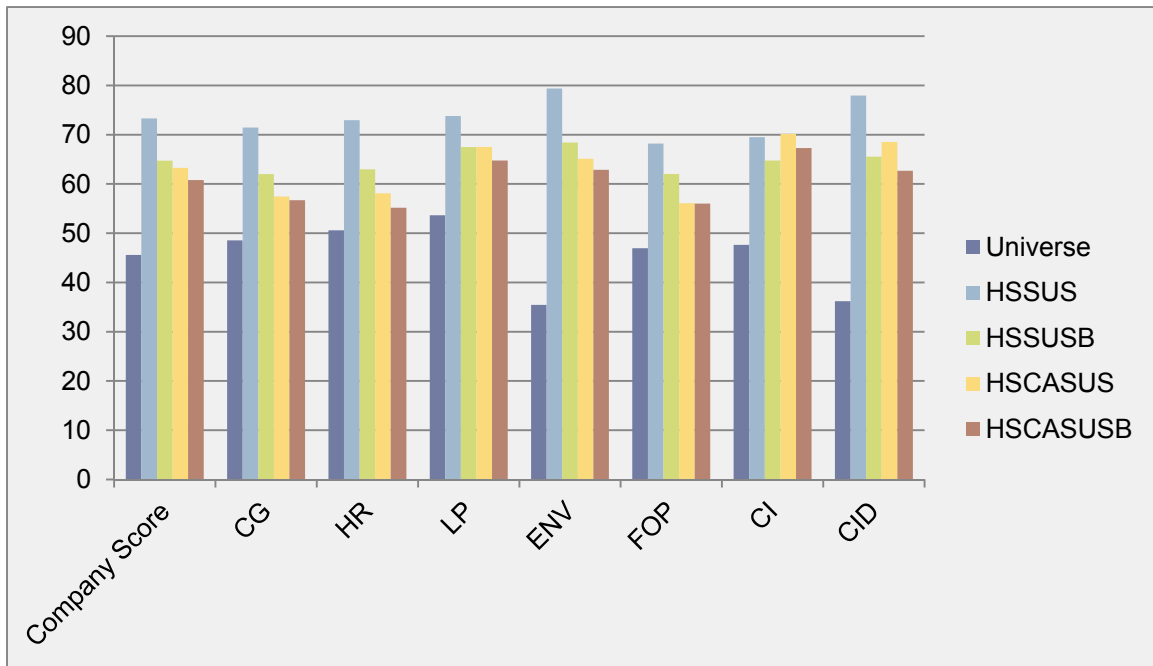


Chart 5 – Subject Performance of Universe and 4 Indexes

As shown in the chart above, HSSUS shows the best performance in almost all subjects. Most of the companies in Hong Kong have commenced their preparations for the Competition Ordinance. Ensuring that they are able to tailor internal compliance programmes accordingly, companies were generally aware of the Fair Operating Practices and getting ready to extend the concept of supply chain management to the effective management of value chains.



Companies' Quality of Carbon Reporting and Implementation of the Recommended Environmental Practices

In view of the growing interest from stakeholders in companies' environmental performance and the elevation of Hong Kong Stock Exchanges and Clearing Limited (HKEx) reporting standards that require the disclosure of environmental KPIs to comply or explain in 2017. We therefore, report below the overall performance of the assessed companies with respect to the quality of their carbon reporting and the implementation of the recommended environmental practices.

- 14% of the assessed HK and CN companies identify climate change and carbon as material issues and report on carbon emissions
- 57% of the Index Series Constituents report on carbon while only 7% of the Non-Constituents do likewise
- 17% of the HK companies report on carbon while only 9% of the CN companies do likewise
- 40% of the companies that report on carbon report on their direct and indirect emissions, fewer companies (18%) report on emissions in their value chains.
- Only 4% of companies publish targets to reduce their carbon emission
- 38% of companies that report on carbon, engage a third party assurance provider for their carbon data

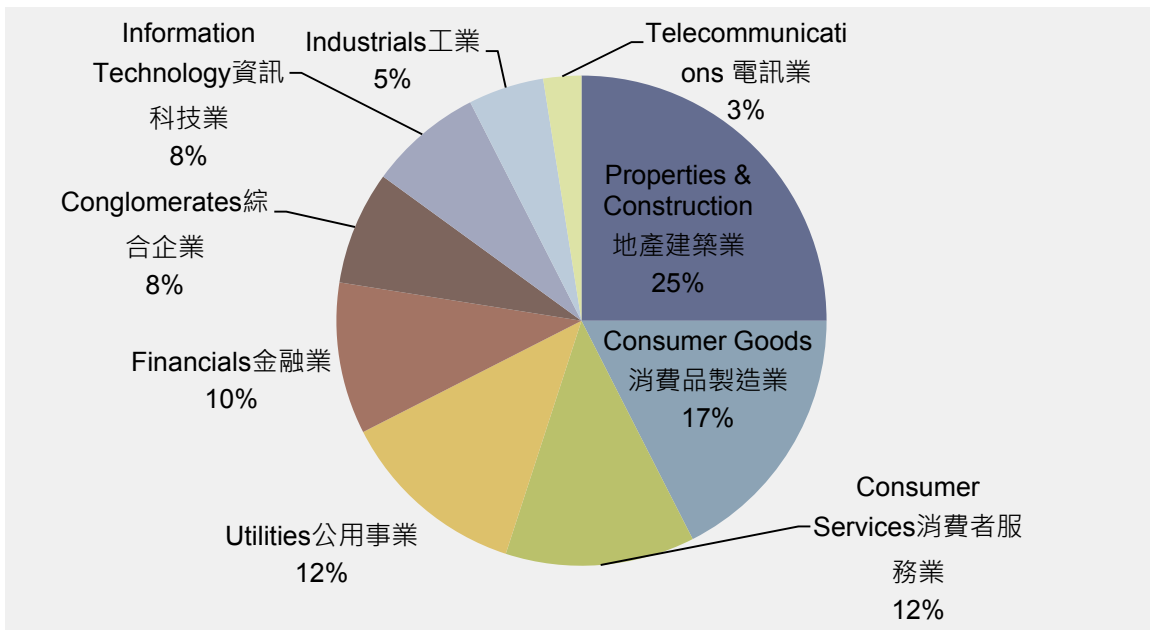


Chart 6 – Industries Reporting on Direct (Scope 1) and Indirect Carbon (Scope 2) Emissions

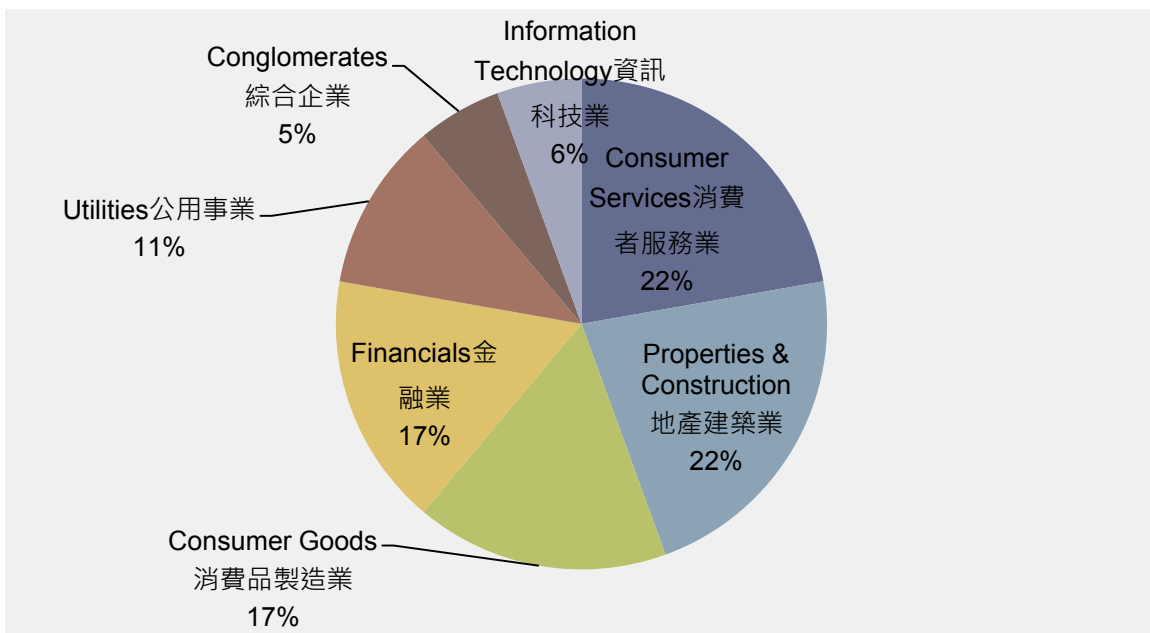


Chart 7 – Industries Reporting Emissions in their other indirect emission (Scope 3)



Environmental Performance

As HK companies will be mandated to report on environmental performance indicators in 2017, this year's research focuses not only on the quality of carbon reporting but also on whether and how they implemented the recommended environmental practices.

- 48% of HK companies implemented measures to prevent pollution and minimize waste
- 40% promoted the sustainable use of resources, including reducing the use of energy, water and replacing non-renewable resources
- 31% implemented measures to adapt to climate change and mitigate its impact
- Only 16% of HK companies in high carbon industries, i.e. Utilities, Properties and Constructions, Industrials, Consumer Goods and Materials report on carbon
- 24% acted to protect the environment and restore natural habitats and the various functions and services that ecosystems provide



Way Forward: Company engagement is on the rise

The adoption of Paris agreement was to stave off the most devastating effects of climate change by limiting the increase in global temperatures to two degrees Celsius, and to just 1.5 degrees Celsius if possible. It raises the awareness of countries and companies to address climate change and sustainability. In recent years, with the investor network emerged – Asia Investor Group on Climate Change (AIGCC) and United Nations-supported Principles for Responsible Investment (PRI), it becomes a market-driven development. There is an increase in responsible investor in terms of number and their investment amount.

Hong Kong Exchanges and Clearing Limited (HKEx) has decided to enforce the Environmental, Social and Governance Reporting in its Listing Rules. By doing this, companies can have better risk management, improved access to capital, greater capacity to meet supply chain demands and lower operational costs. The first phrase of amendment has been carried out in 2016, and now, we look forward to the second phrase, i.e. upgrade of the KPIs in the “Environmental” Subject Area of the Guide from recommended to “comply or explain”. With the higher level of company engagement and expectation from stakeholders, we anticipate better overall performance on sustainability, proactively address sustainability challenges and respond to the needs of society.



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