



**HKQAA CSR Index Series  
and  
Sustainability Rating & Research  
2019-20 Summary Report**

Nov 2020

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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 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), 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 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 1600 annual reports about companies' regulatory compliance and financial performance including revenues and segmental data. HKQAA's Assessment Team review sustainability/ CSR reports (including

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

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 1,730 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 Discretionary, Consumer Staples, Healthcare, Telecommunications, Utilities, Financials, Properties and Construction, Information Technology, Conglomerates*, with inclusion of *Government Department*.

The annual review of HKQAA SRR 2019-20 is also provided at *Appendix A: HKQAA Sustainability Rating and Research Annual Review 2019-20* for supplementary information.

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<sup>2</sup> For details of the Hang Seng Industry Classification System (“HSICS”), please refer to [https://www.hsi.com.hk/static/uploads/contents/en/dl\\_centre/brochures/B\\_HSICSe.pdf](https://www.hsi.com.hk/static/uploads/contents/en/dl_centre/brochures/B_HSICSe.pdf).

## Distribution of the Organizations by Industrial Sector

In 2019-20, a total of 20 organizations showed their commitment of social responsibilities by participating in HKQAA CSR Index series (14 took part in HKQAA CSR Advocate Index and 6 took part in HKQAA CSR Index Plus). The list of participating organizations covers a whole range of government department, as well as listed and non-listed sustainability-driven corporations.

In HKQAA SRR 2019-20, the sustainability performance of 1,724 eligible listed companies was reviewed for inclusion in the Hang Seng Corporate Sustainability Index series – 482 Hong Kong companies (including dual-listed companies, classified as Hong Kong stocks) and 1,242 China Share companies.

### HKQAA CSR Advocate Index

As shown in the chart below for distribution of CSR Advocate Index participants, five companies are derived from Properties and Construction and Industrials sectors respectively; two companies are from Government Department and Consumer Discretionary sectors respectively and one company is from Consumer Staples.

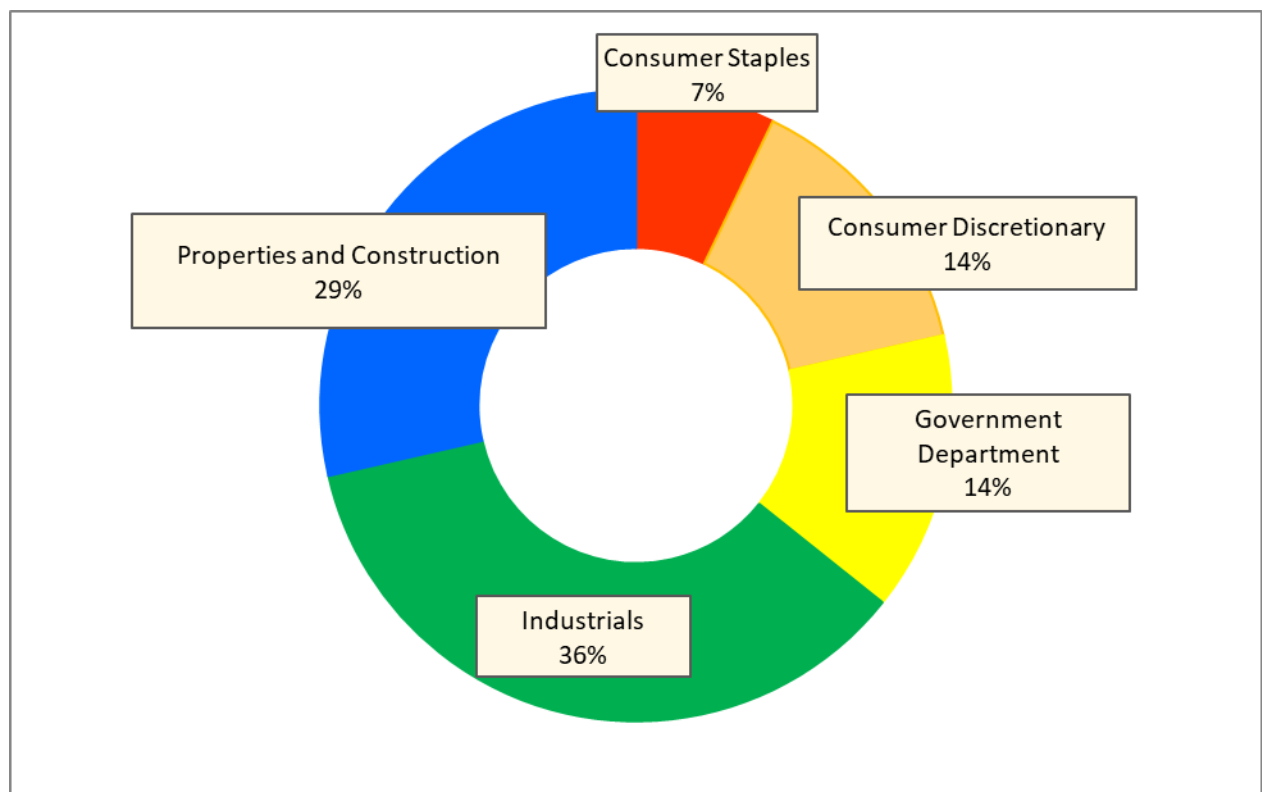


Chart 1 – Distribution of CSR Advocate Index Participants by Industrial Sector

## HKQAA CSR Index Plus and HKQAA SRR

With reference to Chart 2 below, most of the HKQAA CSR Index Plus participants and assessed listed companies in HKQAA SRR are derived from 2 sectors, which are including Industrials and Consumer Discretionary.

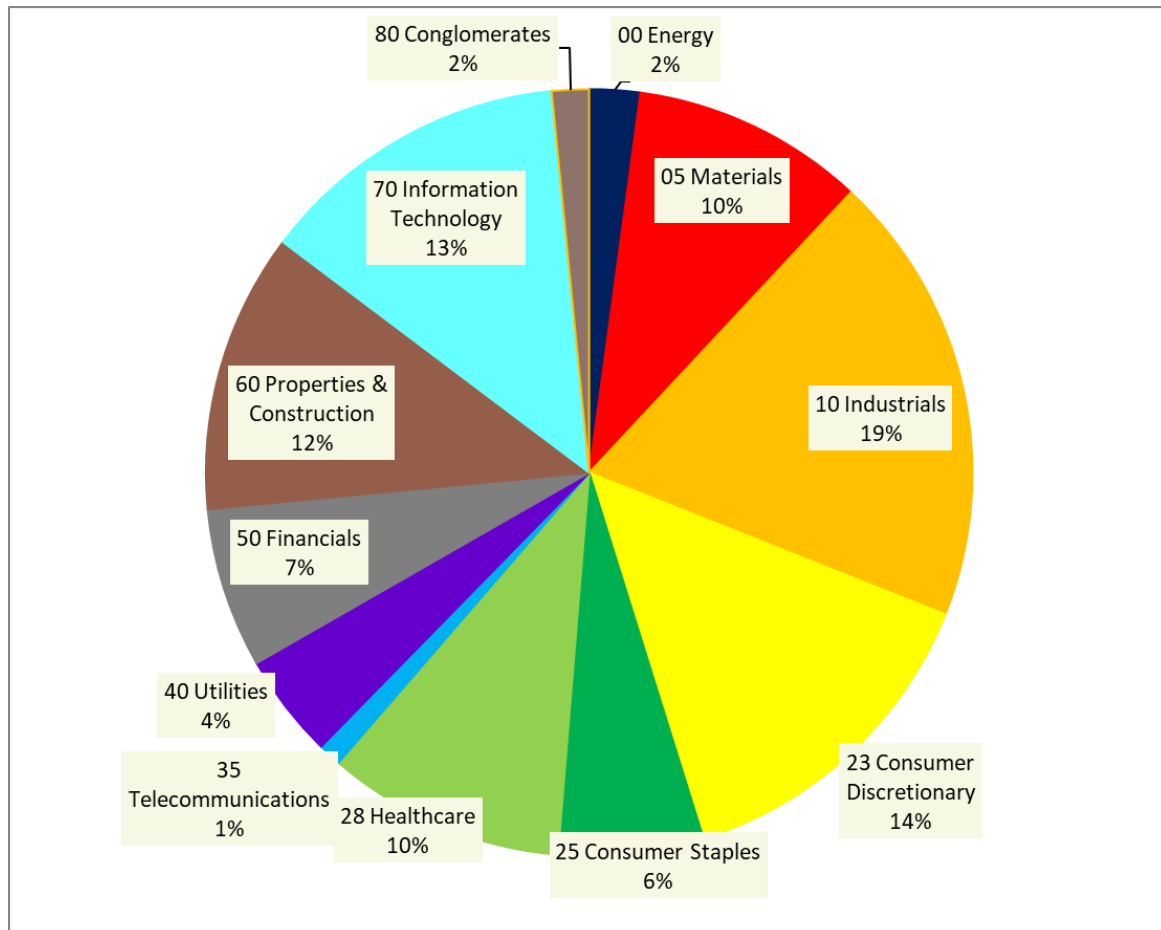


Chart 2 – Distribution of CSR Index Plus Participants and Assessed Companies in SRR by Industrial Sector

There were a total of 1,744 companies involved in HKQAA CSR Index series and Sustainability Rating Research in 2019-20 (including 14 HKQAA CSR Advocate Index participants, 6 HKQAA CSR Index Plus participants and 1724 assessed listed companies in HKQAA SRR).



## Participating Organizations of HKQAA CSR Index Series

Index Type
A CSR Advocate Index
P CSR Index Plus



Name of Organisation	Index Type
ATAL Engineering Group	A
China Everbright Greentech Limited	P
Chun Lee Engineering Company Limited	A
Driltech Ground Engineering Limited	A
FrieslandCampina (Hong Kong) Limited	A
GP Batteries International Limited	A
Hanison Construction Holdings Limited	A
Hip Hing Engineering Company Limited	A
Housing Department (Development and Construction Division)	A
Housing Department (Estate Management Division)	A
Hong Kong Trade Development Council	A
Jumbo Orient Contracting Limited	A
New World Development Company Limited	P
Shinryo (Hong Kong) Limited	A
Shinryo Technical Services Limited	A
Shun Yuen Construction Company Limited	A
The Wharf (Holdings) Limited	P
Tong Kee Engineering Limited	P
Wharf Real Estate Investment Company	P
Wheelock and Company Limited	P

As of 31 Oct 2020

## Overall Performance in 2019 – 20

### HKQAA CSR Advocate Index

In summary, the average score of HKQAA CSR Advocate Index was 4.75 out of 5 in 2019-20 and recorded a 0.65% increase as compared to year 2018-19. Organizations' continuously endeavors 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.

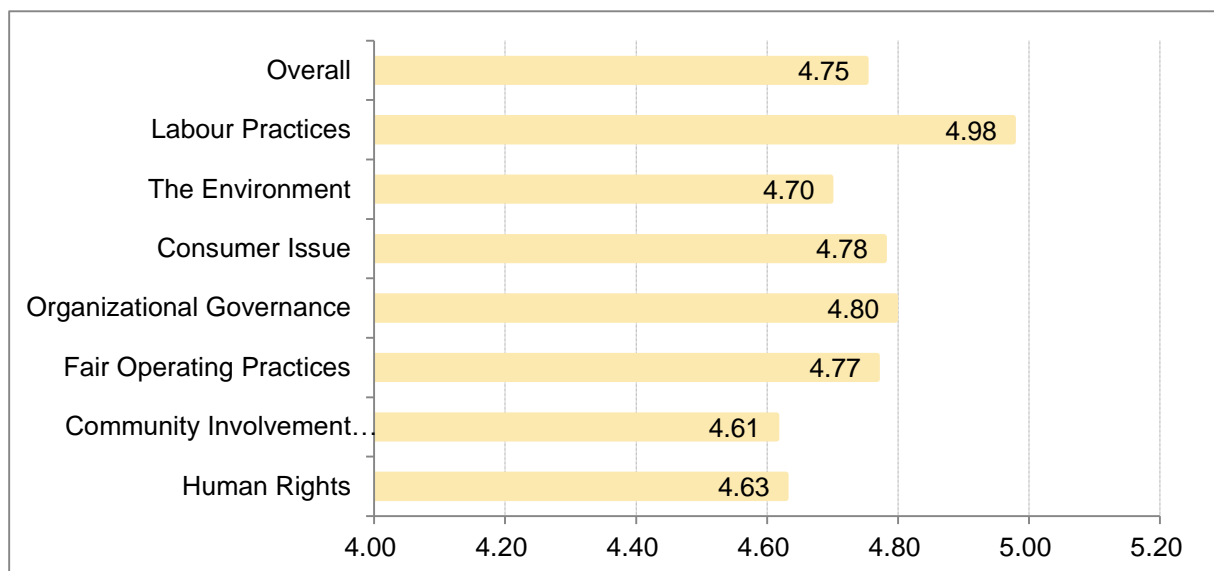


Chart 3 – Average Scores of the 7 CSR core subjects in 2019-20 for HKQAA CSR Advocate Index

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 and Community Involvement and Development score the lowest among all the core areas.

According to Chart 4, the average performances of most of the core subjects in 2019-20 are greater than that in 2018-19 except The Environment and Community Involvement and Development . Fair Operating Practices and Organization Governance account for 2.31% and 1.82% improvement respectively. Labour Practices almost reaches full score as companies address to employees' concerns in the working environment, rights and benefits.

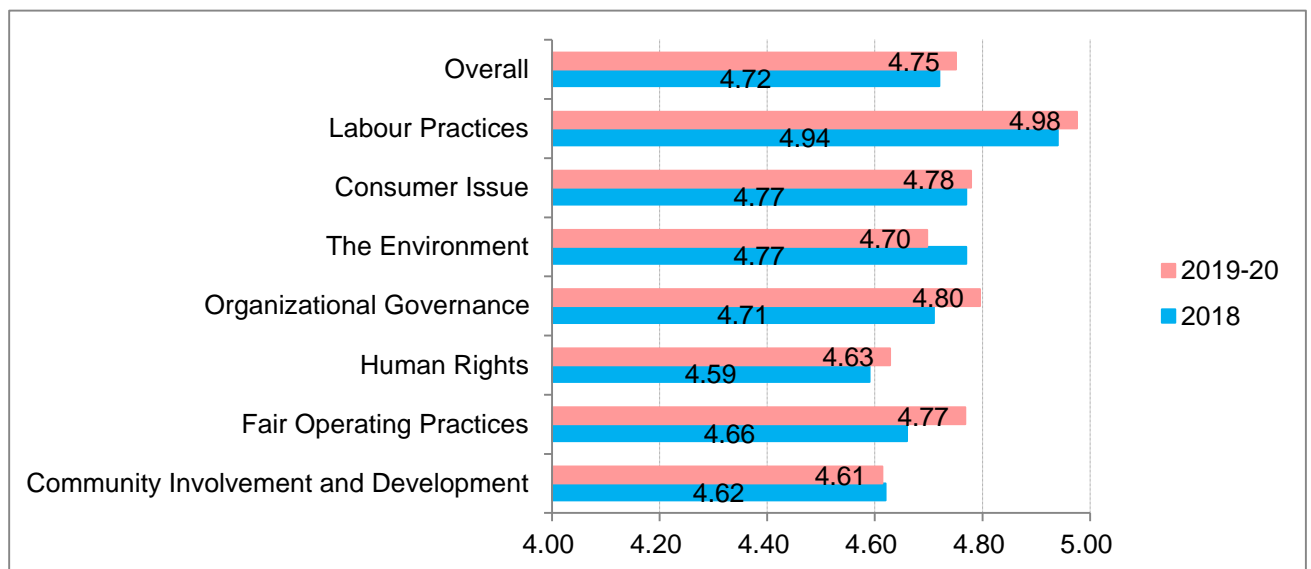


Chart 4 – Average Scores of the 7 CSR core subjects in 2018-19 vs 2019-20 for  
HKQAA CSR Advocate

Chart 5 shows the comparison between 2009-2010 and 2019-20. The Environment and Fair Operating Practices are the areas which have the biggest growth in the last 10 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.

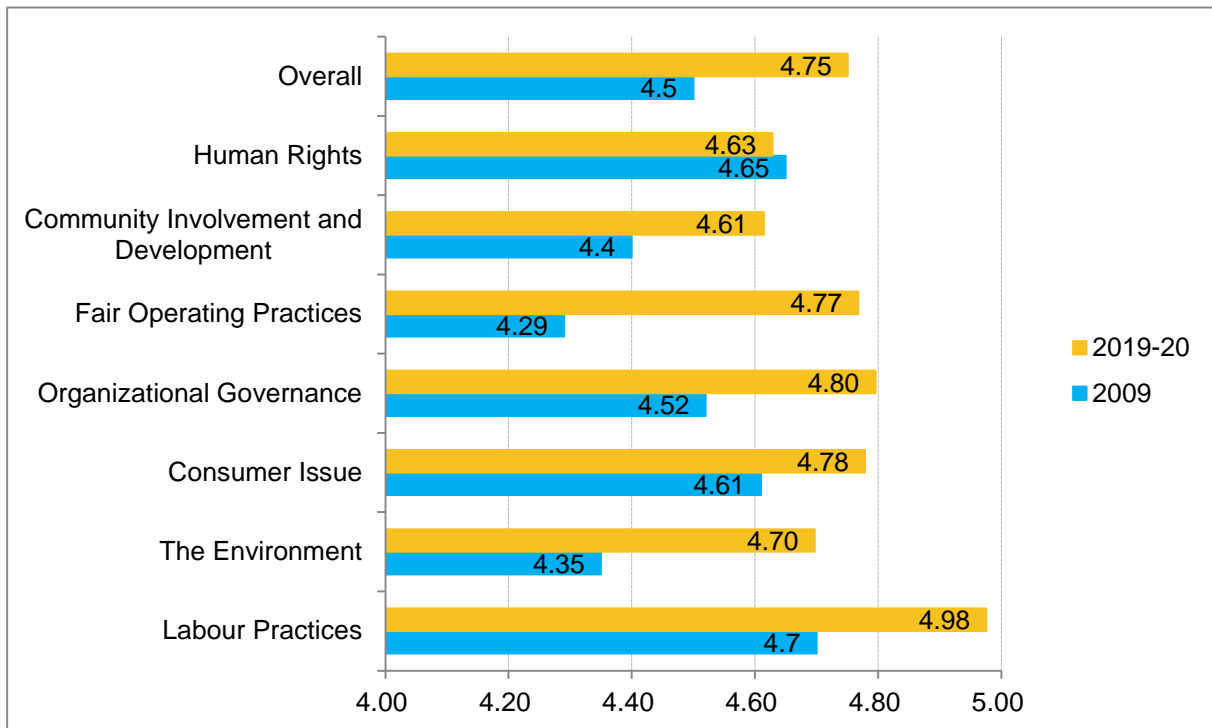


Chart 5 – Average Scores of the 7 CSR core subjects in 2009-2010 vs 2019-20 for  
HKQAA CSR Advocate

## HKQAA CSR Index Plus and HKQAA SRR

In 2019-20, the average score of HKQAA CSR Index Plus and HKQAA SRR was 46.15 out of 100, representing a decrease of 14.64% 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 core subjects has dropped significantly. This is mainly due to the expansion of assessed companies and update of risk factors this year. In view of the varying standards and quality of sustainability reports, it is inevitable that a variation of scores is occurred.

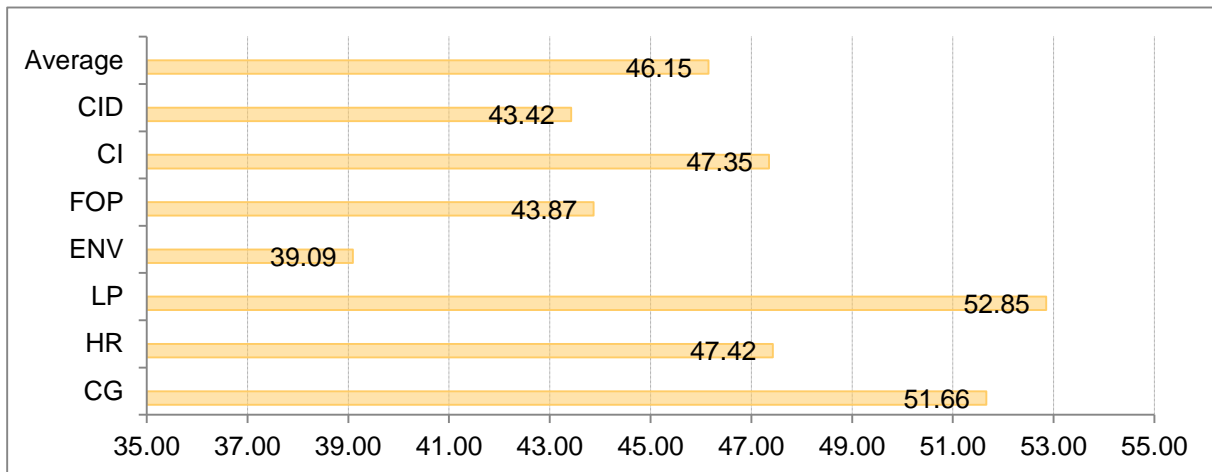


Chart 6 – Average Scores of the 7 CSR core subjects in 2019-20  
for HKQAA CSR Index Plus and HKQAA SRR

Comparing the average score of HKQAA SRR in 2018-19 and 2019-20, the performance of most of the core subjects has dropped significantly this year except Organizational Governance and Community Involvement and Development.

	Average Score in 2018-19	Average Score in 2019-20	Trend and % change
Organizational Governance	50.23	51.58	↑2.68%
Human Rights	48.41	47.35	↓2.19%
Labour Practices	54.44	52.78	↓3.04%
The Environment	44.75	38.94	↓12.97%
Fair Operating Practices	51.12	43.77	↓14.39%
Consumer Issues	47.81	47.25	↓1.16%
Community Involvement and Development	41.84	43.30	↑3.48%
Overall	48.37	46.05	↓4.81%

Table 1 – Average Scores of the 7 CSR core subjects in 2018-19 and 2019-20 for HKQAA SRR

## Sector-Level Performance in 2019-20

### HKQAA CSR Advocate Index

As shown in the Chart 7, Government Department and Consumer Discretionary were the best performing sector in 2019-20 followed by Properties and Construction sector. 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 sectors has reached maturity level in spite of the relatively lower scores obtained.

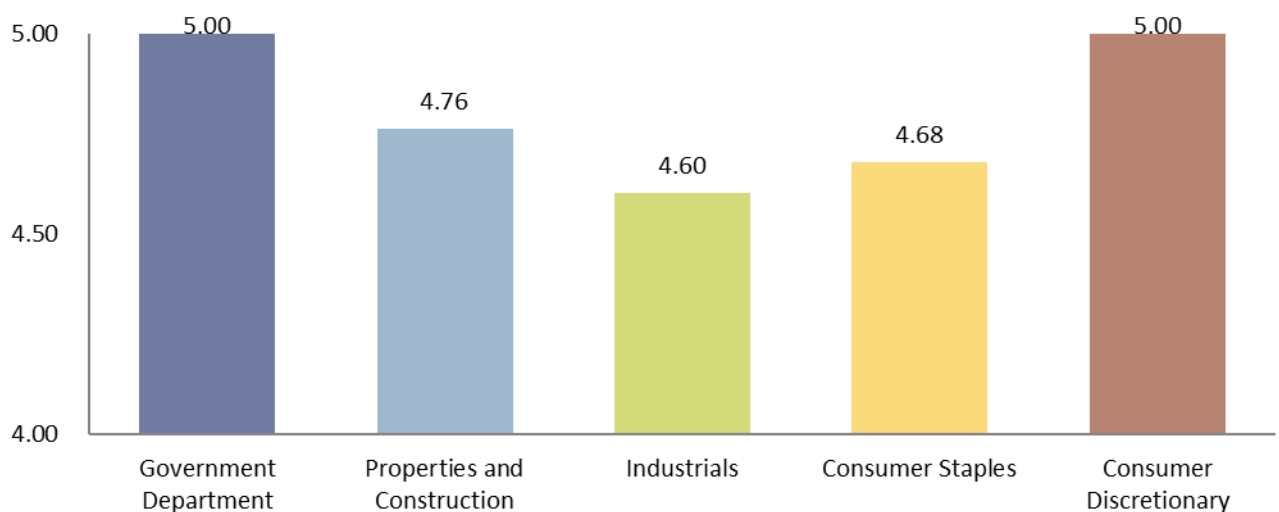


Chart 7 – Average Scores by Sectors 2019-20 for HKQAA CSR Advocate Index

## 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 2019-20. Looking at the average scores of all industries, Telecommunications, Property & Construction and Utilities sectors demonstrated the strongest sustainability performance.

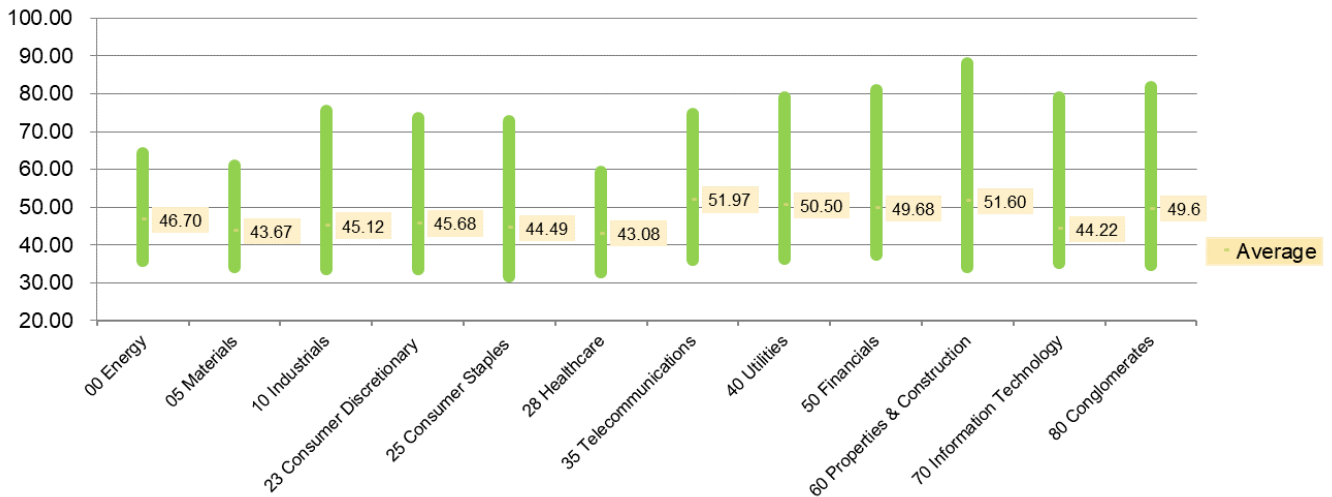


Chart 8 – Maximum, Minimum and Average Scores by Sectors 2019-20

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 Financials industry in China performed the best among the industries.

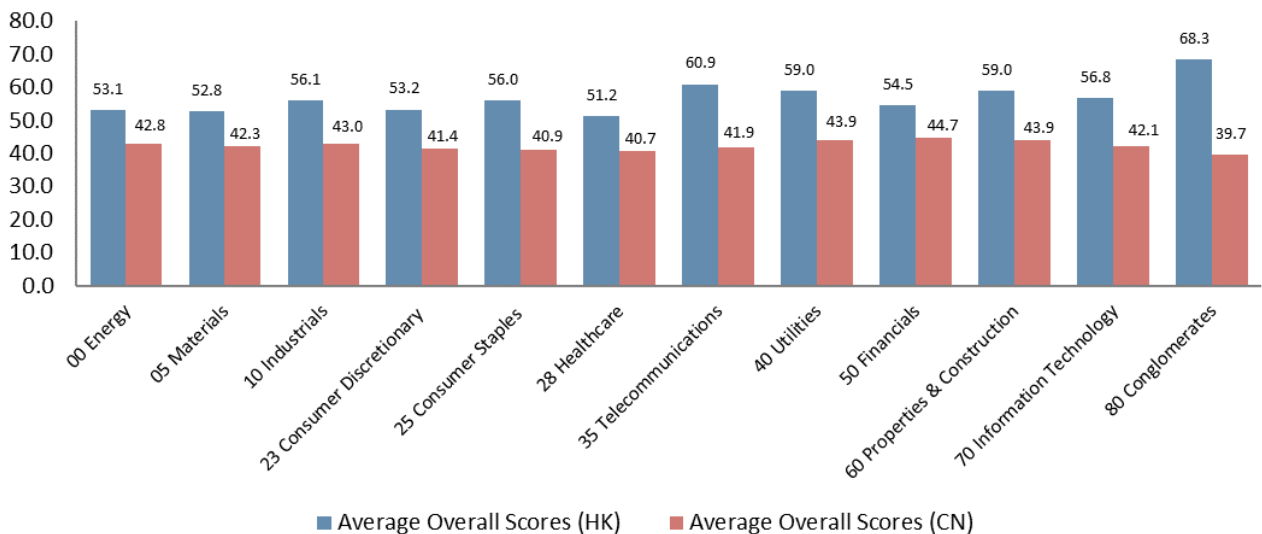


Chart 9 – Average Overall Scores by Sectors and Markets 2019-20

## Subject Performance in 2019-20

### 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 10 below and shows minimal deviation between sectors. In our verification process in 2019-20, the following CSR initiatives continued to drive the improving CSR performance.

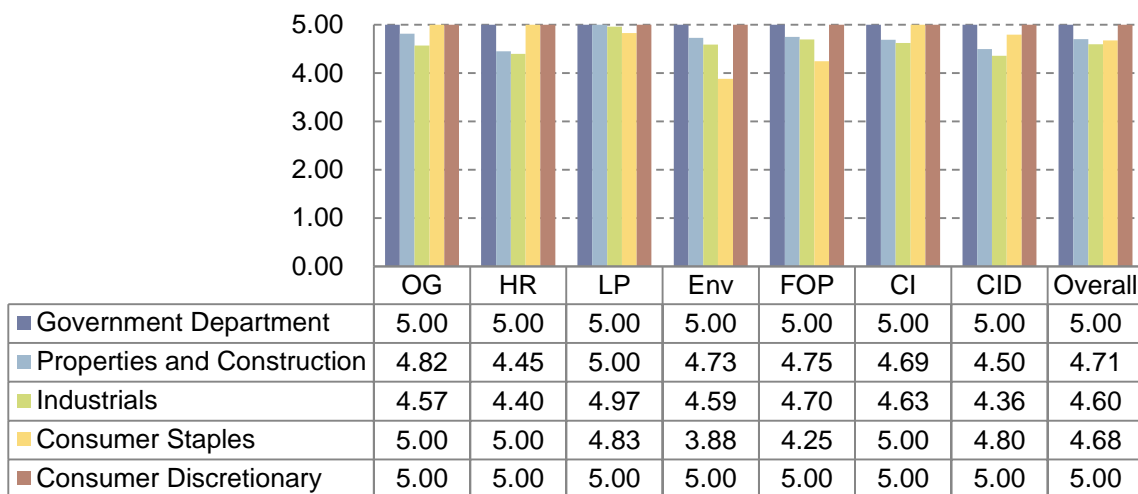


Chart 10 – Subject Scores of Various Sectors 2019-20 for HKQAA CSR Advocate Index

### 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 SRR

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)

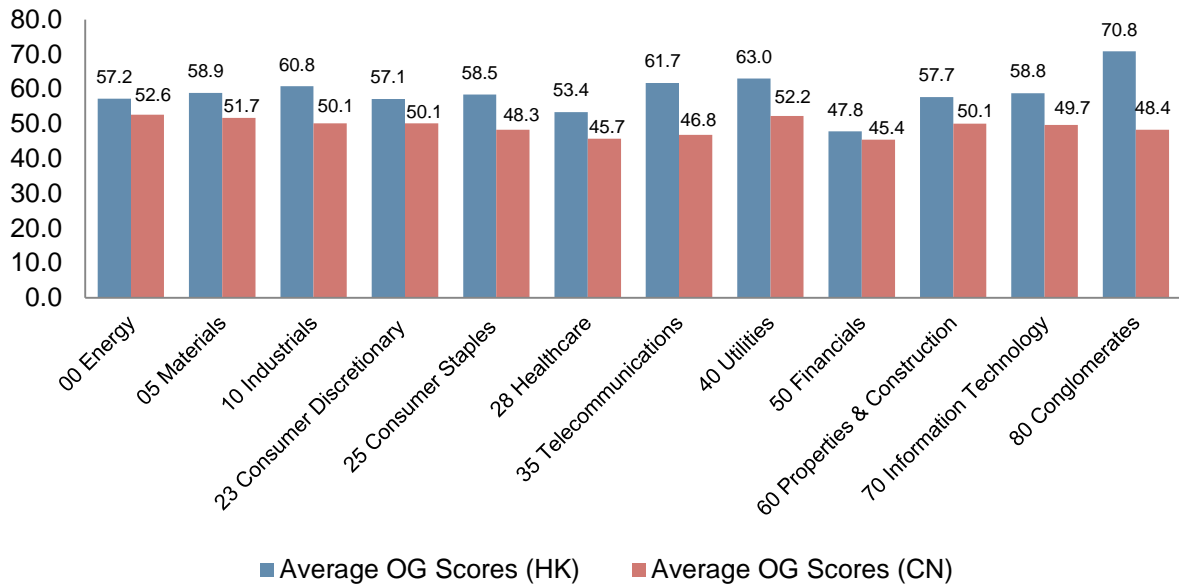


Chart 11 – Average Scores of Organizational Governance by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

### 2. Human Rights (HR)



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

### 3. Labour Practices (LP)

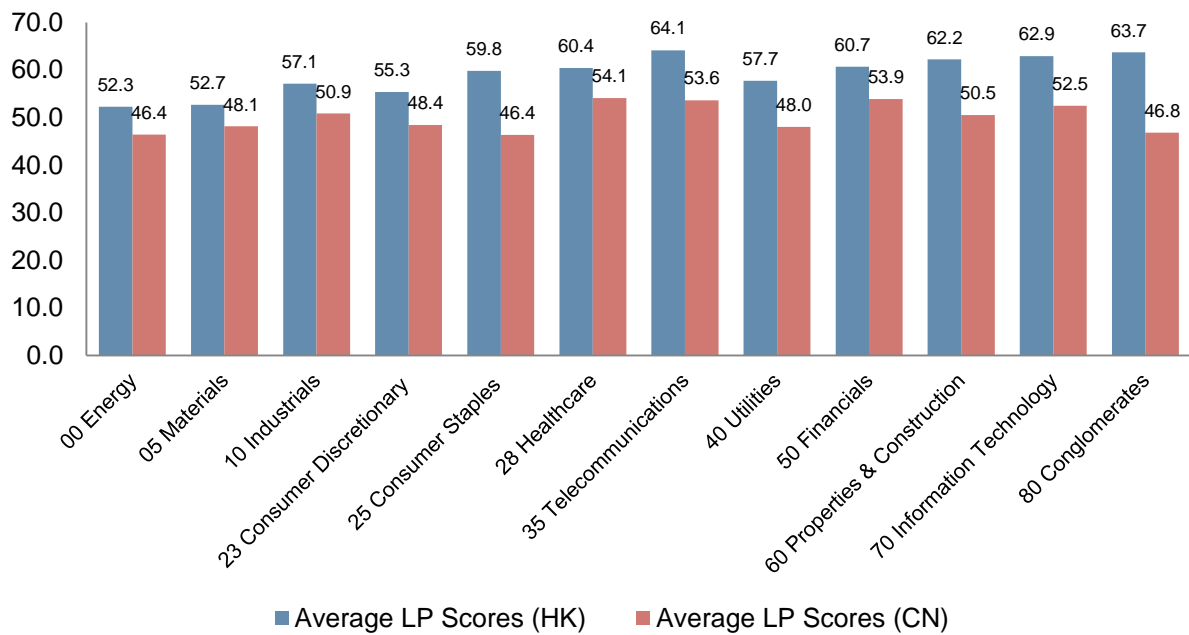


Chart 13 – Average Scores of Labour Practices by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

### 4. The Environment (Env)

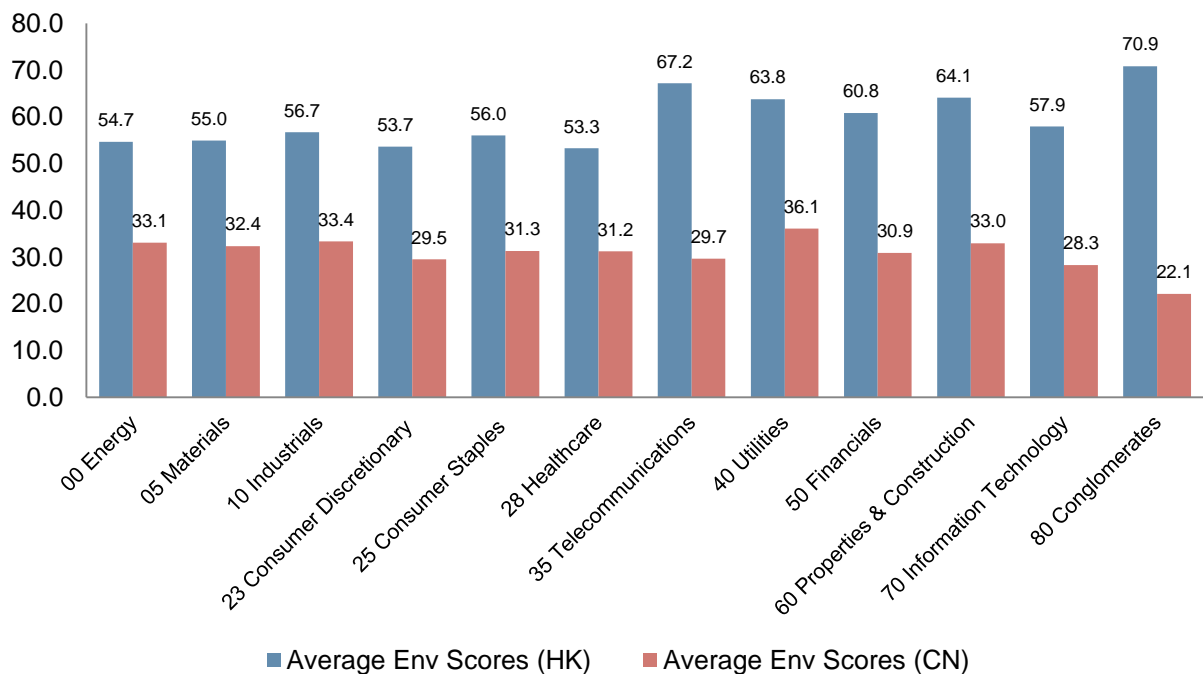


Chart 14 – Average Scores of The Environment by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

## 5. Fair Operating Practices (FOP)

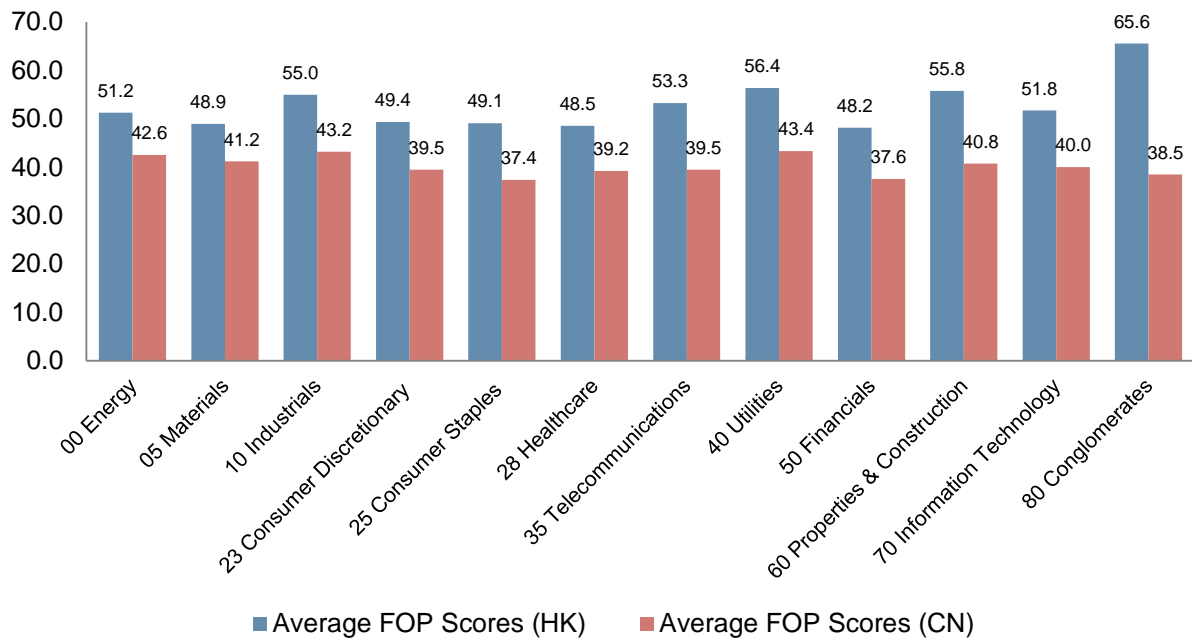


Chart 15 – Average Scores of Fair Operating Practices by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

## 6. Consumer Issues (CI)

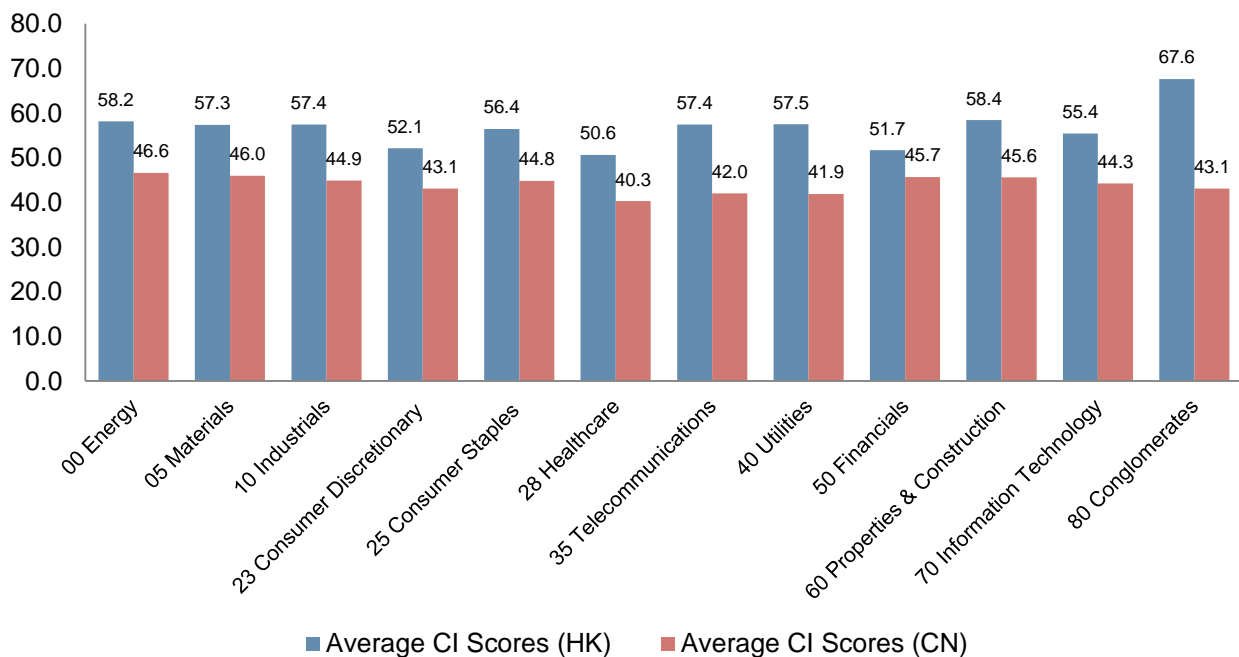


Chart 16 – Average Scores of Consumer Issues by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

## 7. Community Involvement and Development (CID)

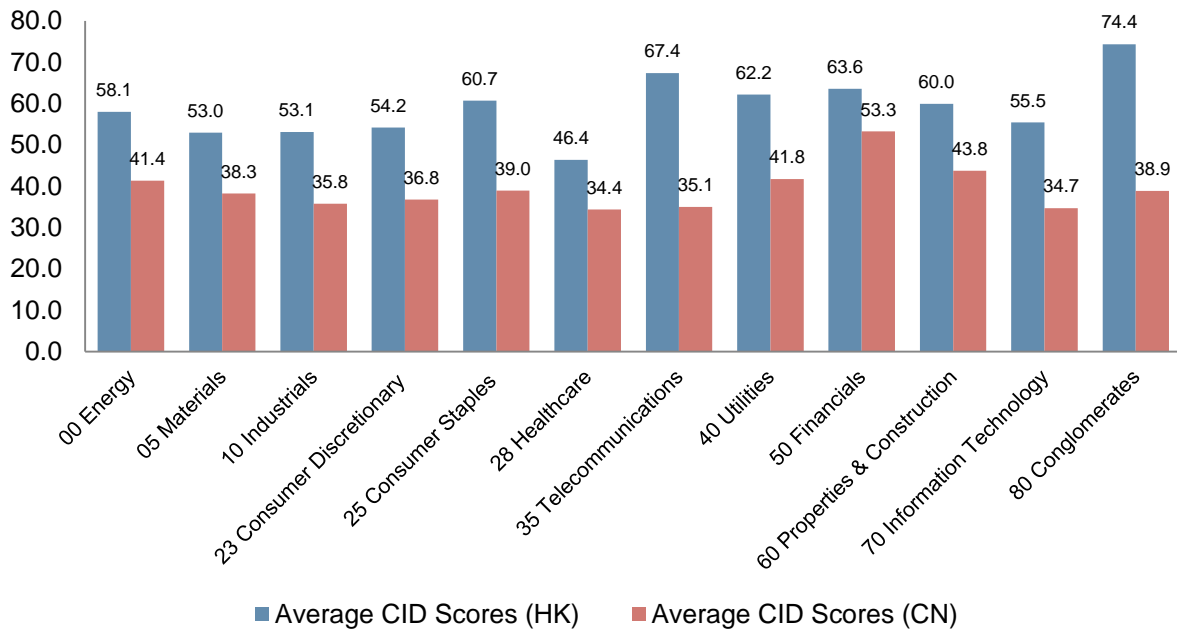


Chart 17 – Average Scores of Community Involvement and Development by Sectors and Markets for HKQAA CSR Index Plus and HKQAA SRR

## 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.

Businesses involved with society and its surroundings will attract more talent and they are able to keep the talent in their team for longer. To rely on a more motivated team with talent is a crucial condition in order for any business to grow.

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 2019-20

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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 seventh annual HKQAA Sustainability Rating and Research once again assessed the quality of companies’ sustainability management using the scoring methodology based on ISO 26000, GRI Standards and HKEX ESG Reporting Guide.

### Executive Summary – HKQAA Sustainability Rating and Research

- HKQAA has reviewed the sustainability performance of 482 and 1242 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 Limited 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+ (2 companies). In summary, 82.6% of HK companies and 9.3% of CN companies achieved a satisfactory rating of A- or above.
- The performance of HK companies is steady while the CN companies have stepped back, which is mainly due to the substantial increase in the number of assessed CN companies and the update of risk factors under our assessment model which may have greater impact on certain industries.
- The average scores of all industries decreased, except Telecommunication and Utilities show better performance against last year. Telecommunications, Properties & Construction and Utilities are the strongest sustainability performance among industries. Healthcare lags behind other industries.
- The performance in the Labour Practices 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".

Activities	Parties involved	Mar	Apr	May	Jun	Jul	Aug	Sep
Provision of eligible company list	Hang Seng Indexes							
Questionnaire pre-filling	HKQAA							
Prefilled questionnaire distribution	HKQAA/ Eligible companies							
Feedback to HKQAA	Eligible companies							
Scores and ratings finalized	HKQAA							
Reports compilation	HKQAA							

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 2019-20 – Universe Statistics

### Number of Universe Companies

In 2019-20, HKQAA reviewed the sustainability performance of 1724 eligible listed companies<sup>4</sup> for inclusion in the Hang Seng Corporate Sustainability Index series – 482 Hong Kong listed (HK) companies (including dual-listed companies) and 1242 China A-Share listed (CN) companies. The top three sectors<sup>5</sup> namely: Industrials (330 companies), Consumer Discretionary (245 companies) and Information Technology (228 companies). The research process on the shortlisted companies was undertaken by HKQAA from 2014.

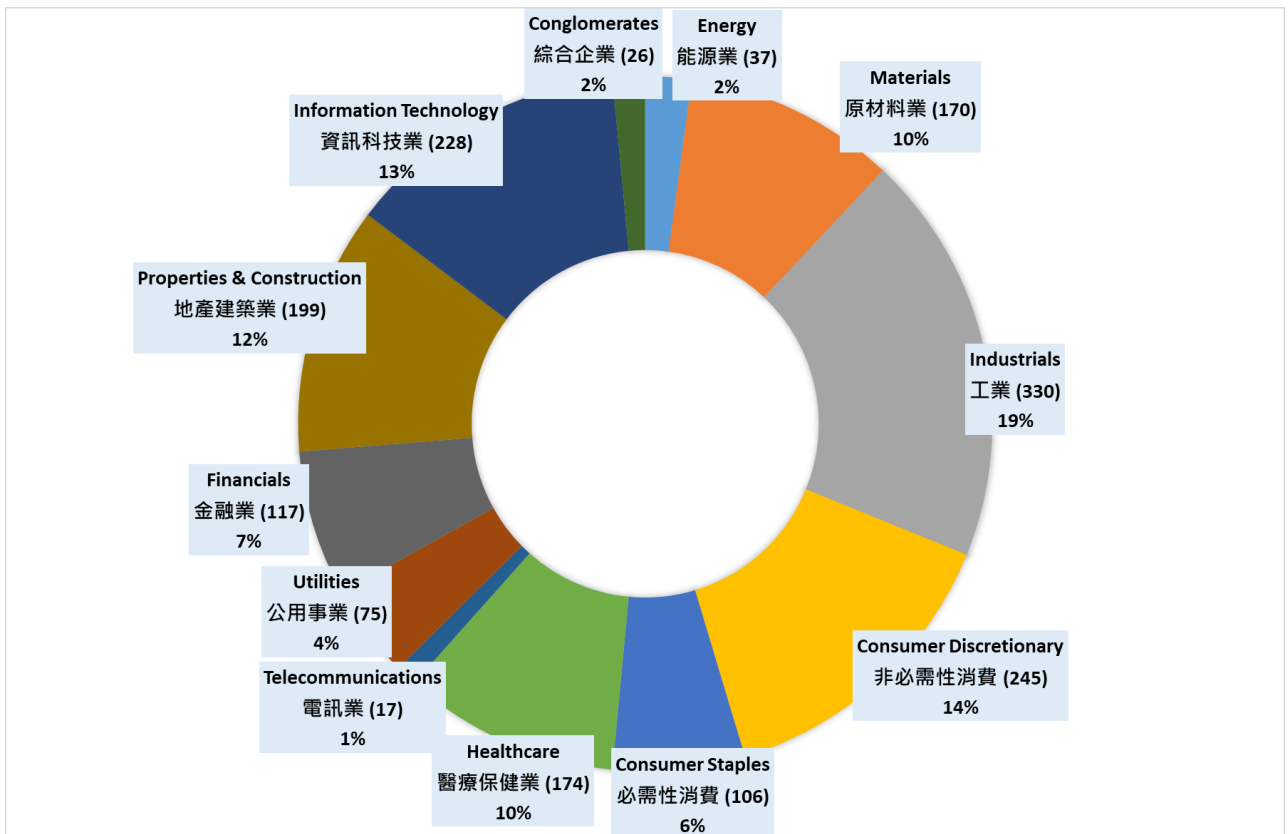


Chart 1 – Universe by Industry 2019-20

<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 <https://www.hsi.com.hk/eng/our-services/hsics>.



## ***The Research Project***

HKQAA's AT examined over 1700 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.

## ***Research Findings in 2019-20***

### 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 (BB-) or above, Hong Kong companies were revealed with slightly stronger performance than China companies.

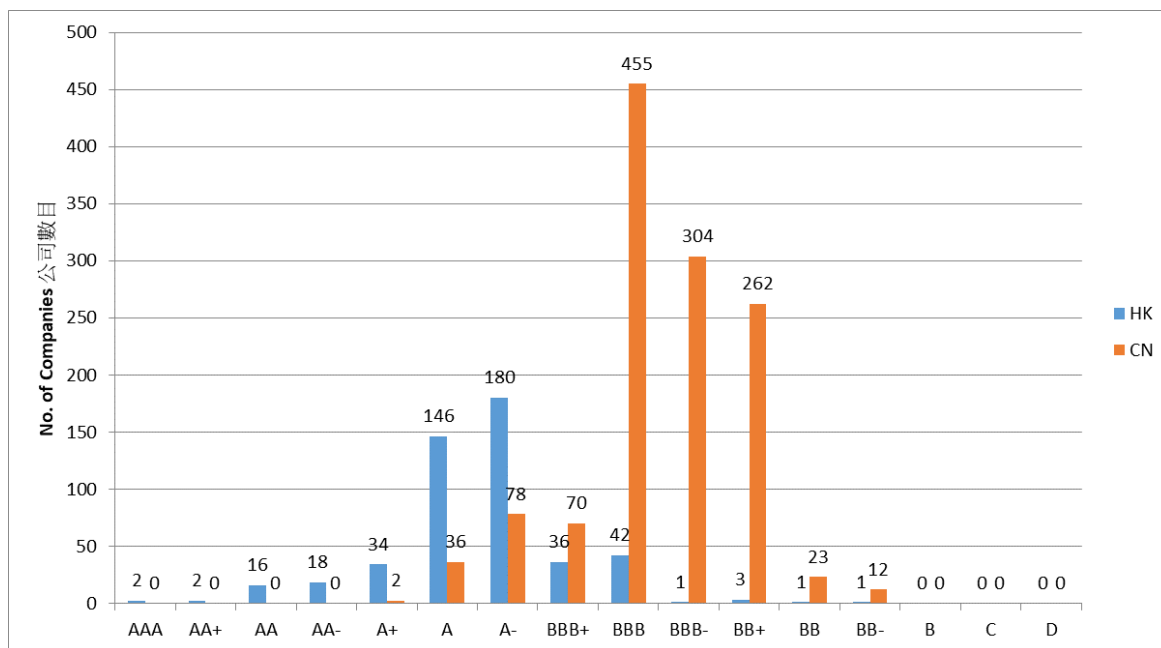


Chart 2 – Overall Performance by Market

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+ (2 companies). 398 HK companies (82.6%) and 116 CN companies 9.3(%) achieved a satisfactory rating of A- or above. The performance of HK companies remains steady while the CN companies have stepped back, which is mainly due to the substantial increase in the number of assessed CN companies and the update of risk factors under our assessment model which may have greater impact on certain industries.



	No. of HK Companies			No. of CN Companies		
	2019-20	2018-19	Variance	2019-20	2018-19	Variance
AAA	2	1	↑	0	0	-
AA+	2	1	↑	0	0	-
AA	16	18	↓	0	0	-
AA-	18	8	↑	0	0	-
A+	34	20	↑	2	1	↑
A	146	187	↓	36	53	↓
A-	180	157	↑	78	92	↓
BBB+	36	43	↓	70	74	↓
BBB	42	34	↑	455	304	↑
BBB-	1	5	↓	304	345	↓
BB+	3	1	↑	262	64	↑
BB	1	1	↑	23	194	↓
BB-	1	0	↑	12	6	↑
B	0	0	-	0	0	-
C	0	0	-	0	0	-
D	0	0	-	0	0	-
Total	482	476	-	1242	1133	-

Table 1 - Rating Distribution in 2019-20 and 2018-19



## Sector-level Performance

By analyzing the average scores of all industry sectors, Telecommunications, Properties and Construction and Utilities display the strongest sustainability performance, while the Healthcare sector obtained the poorest results.

Industry	CGM	P&C	FIN	TEL	UTI	IND	ENE	IT	CSD	CSS	MAT	HC
<b>Maximum</b>	<b>81.7</b>	<b>88.2</b>	<b>81.1</b>	<b>74.7</b>	<b>79.0</b>	<b>75.5</b>	<b>64.2</b>	<b>79.1</b>	<b>73.6</b>	<b>72.8</b>	<b>60.9</b>	<b>59.4</b>
<b>(Rating)</b>	<b>(AA+)</b>	<b>(AAA)</b>	<b>(AA+)</b>	<b>(AA)</b>	<b>(AA)</b>	<b>(AA)</b>	<b>(A+)</b>	<b>(AA)</b>	<b>(AA-)</b>	<b>(AA-)</b>	<b>(A)</b>	<b>(A)</b>
<b>Minimum</b>	<b>34.7</b>	<b>34.2</b>	<b>37.6</b>	<b>36.1</b>	<b>36.3</b>	<b>33.6</b>	<b>35.8</b>	<b>35.3</b>	<b>33.7</b>	<b>31.7</b>	<b>34.1</b>	<b>32.9</b>
<b>(Rating)</b>	<b>(BB+)</b>	<b>(BB)</b>	<b>(BB+)</b>	<b>(BB+)</b>	<b>(BB+)</b>	<b>(BB)</b>	<b>(BB+)</b>	<b>(BB+)</b>	<b>(BB-)</b>	<b>(BB-)</b>	<b>(BB)</b>	<b>(BB-)</b>
<b>Average</b>	<b>48.5</b>	<b>51.0</b>	<b>49.7</b>	<b>52.0</b>	<b>50.1</b>	<b>45.1</b>	<b>46.7</b>	<b>44.2</b>	<b>45.7</b>	<b>44.5</b>	<b>43.7</b>	<b>43.1</b>
<b>(Rating)</b>	<b>(BBB+)</b>	<b>(A-)</b>	<b>(BBB+)</b>	<b>(A-)</b>	<b>(A-)</b>	<b>(BBB)</b>	<b>(BBB)</b>	<b>(BBB)</b>	<b>(BBB)</b>	<b>(BBB)</b>	<b>(BBB)</b>	<b>(BBB)</b>

CGM Conglomerates

TEL Telecommunications

P&C Properties and Construction

UTI Utilities

FIN Financials

IT Information Technology

IND Industrials

ENE Energy

CSD Consumer Discretionary

CSS Consumer Staples

MAT Materials

HC Healthcare

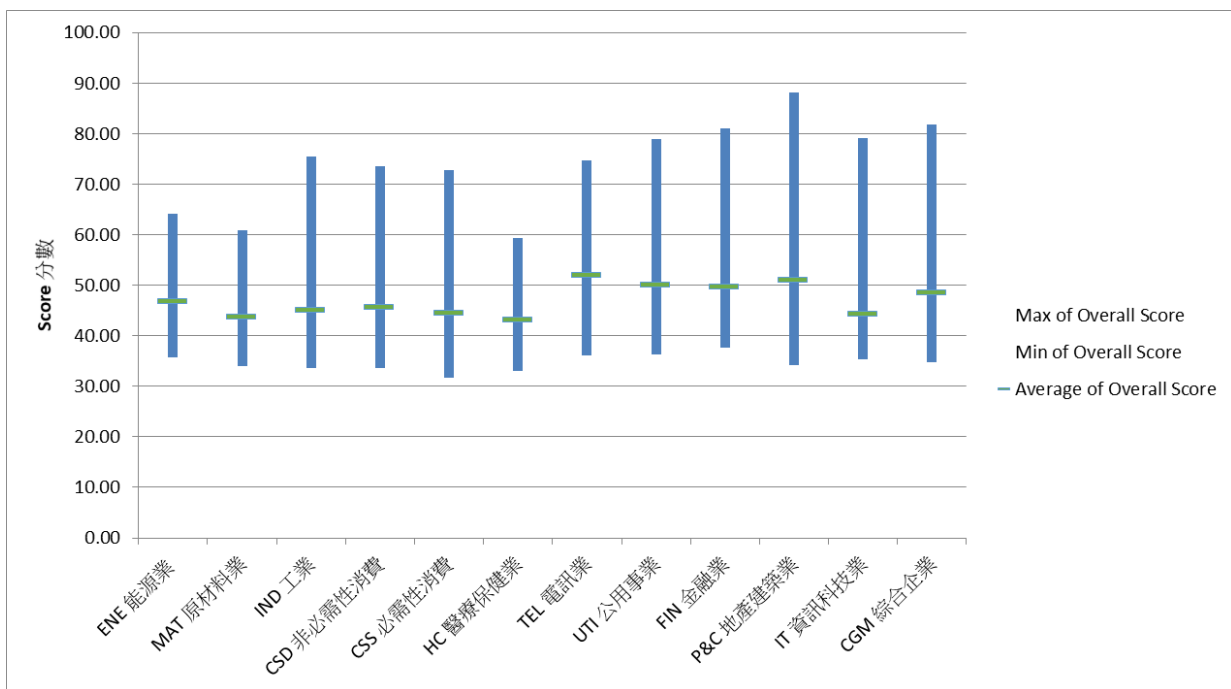


Chart 3 – Average Scores by Sectors 2019-20



## 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)*.

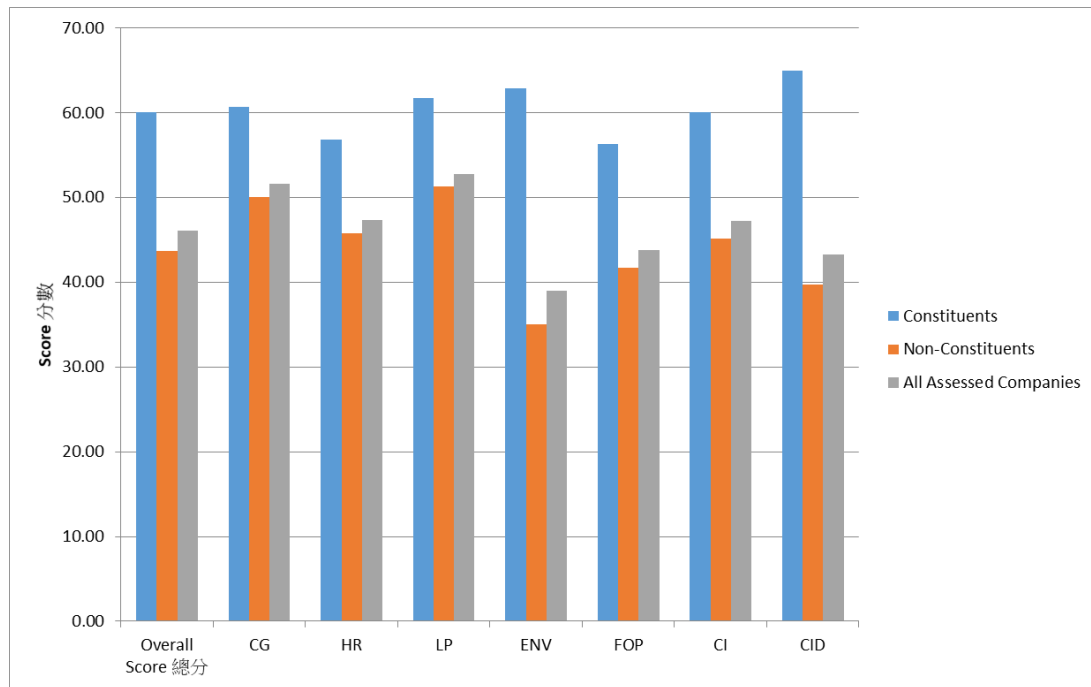


Chart 4 – Subject Performance of Hang Seng Corporate Sustainability Indexes  
Constituent versus Non-Constituents

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 The Environment and 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 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")

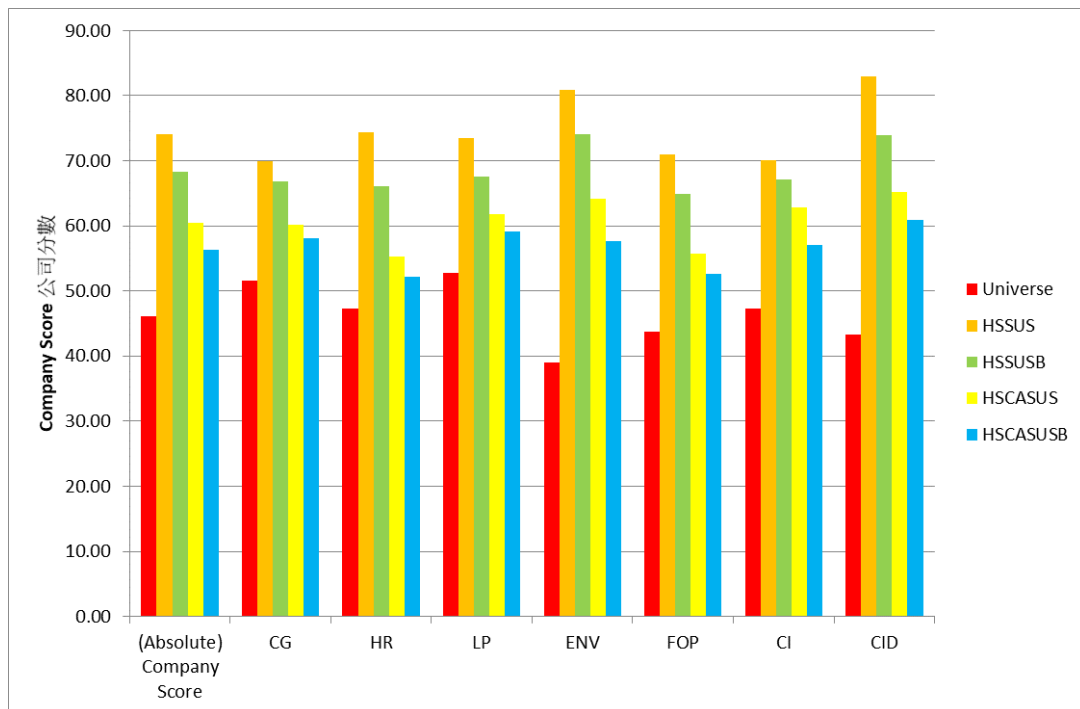


Chart 5 – Subject Performance of Universe and 4 Indexes

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: The Challenge and Opportunity of COVID-19 on Sustainability

It is no doubt that COVID-19 pandemic demonstrates huge impacts globally. The spread of the coronavirus forced companies to tackle an expanding range of environmental, social and governance (ESG) challenges by implementation of adaptation measures.

In some ways, the pandemic crisis has become one of the catalyst for companies to establish longer-term of sustainability agenda and robust ESG practices.

Ms. Fiona Reynolds, CEO, Principles for Responsible Investment stated that the pandemic has served as the first real proof-point for sustainability, underlining the fact that ESG investing doesn't come at a cost, but more than that can future-proof investments and in some cases boost returns, all while helping to shape a better future. In the face of this crisis, the facts are now proving the resilience of sustainable investing.

While the coronavirus would eventually be dealt with vaccines, climate change still poses a threat to our world. Changing weather patterns and extreme weather events could have similar impacts on the world as COVID-19 - the loss of lives and livelihoods, strain on healthcare systems and global supply chains, and economic damage.

Along with the investor's increasing preference for financial products that incorporate ESG factors, identification and disclosure of these factors can be viewed as a way to improve transparency and address information asymmetries between investors and companies on sustainability issues.



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