

Press release

LCQ12: Corporate social responsibilities of companies listed in Hong Kong Wednesday, January 18, 2012

Following is a question by the Hon Emily Lau and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 18):

Question:

At present, the Hong Kong Exchanges and Clearing Limited (HKEx) has not listed any requirement in respect of the discharge of corporate social responsibilities for the vetting and approval of listing applications from companies. It had been reported before the listing of a company in Hong Kong last year that the subsidiary of that company in Japan was suspected to have condoned incidents of sex discrimination and sexual harassment, and have dismissed employees unreasonably. On the other hand, the Companies Bill gazetted in January last year contains a proposed provision that a business review must include certain environmental, social and governance (ESG) matters (e.g. environmental policies and performance, compliance with the relevant laws and regulations, and key relationships with its employees, customers and suppliers, and other matters which have a significant impact on the company), and HKEx has also planned to issue an "ESG Reporting Guide" (the Guide). In this connection, will the Executive Authorities inform this Council:

(a) of the measures the authorities have in place to promote the discharge of corporate social responsibilities (including compliance with the requirements under the international standards of the treatment of workers, women's right, human rights and environmental protection) by listed companies;

(b) whether they know if HKEx regulates the discharge of corporate social

responsibilities by companies listed in Hong Kong, including conducting relevant vetting of companies applying for initial public offering; and if it does, of the details; if not, the reasons for that; and

(c) given that HKEx has indicated that its long-term vision is to upgrade the reporting requirements under the Guide from requirements that are recommended best practices to those which "require explanation in case of non-compliance", whether they know the timetable of HKEx for materialising this vision?

Reply:

President,

My reply to the three parts of the question is as follows:

(a) The Hong Kong Exchanges and Clearing Limited (HKEx) is actively taking steps to create a long-term culture for listed companies to report environmental, social and governance (ESG) issues. As a first step, HKEx seeks to raise awareness and introduce the approach for such reporting among listed companies, and reason therefor. To this end, HKEx sponsored five free half-day seminars and ten free full-day workshops for listed companies between May and July 2011. As a next step, HKEx seeks to equip listed companies with tools to start reporting ESG matters by uploading on its website training and reference materials on how to start reporting.

HKEx is currently conducting a consultation on a draft ESG Reporting Guide. The Guide is intended to be a simple and easy-to-use reference for listed companies to report on ESG matters, covering Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. The consultation will end on April 9, 2012.

Separately, under the Companies Bill now being examined by the Legislative Council, a new requirement is introduced for public companies and relatively large private companies to prepare an analytical and forward-looking business review as part of the directors' reports. Such review will, among others, cover a discussion on the company's environmental policies and performance, and an account of the company's key relationships with employees, customers, suppliers and others. This

is conducive to the promotion of corporate social responsibility. We look forward to the early enactment of the Bill in this Legislative term.

(b) The requirements for listed companies and Initial Public Offering (IPO) applicants in Hong Kong with regard to corporate social responsibilities (CSR) are in general on par with the practices in other major markets. They cover ESG issues.

The Listing Rules of the Stock Exchange of Hong Kong recommend listed companies to disclose in the management discussion and analysis section of their annual reports information regarding business risks, environmental policies, policies and performance related to community, social, ethical and reputation issues, key relationships with employees, customers, suppliers and others.

For IPO applicants, according to the Companies Ordinance, the prospectus must contain information that is necessary to enable an investor to make an informed assessment of the applicant's activities and prospect. Under the Listing Rules, the prospectus must disclose whether the IPO applicant has any material breach of laws and regulations, and any ESG issues that might be material to an investor's assessment of the applicant's activities and prospects. In addition, if the IPO applicant is a mineral company, it must include in its listing document information on risks arising from environmental, social, and health and safety issues; non-governmental organisation impact on sustainability of mineral and/or exploration projects; funding plans for remediation, rehabilitation and closure and removal of facilities in a sustainable manner; environmental liabilities of its projects or properties; and any claims that may exist over the land on which exploration or mining activity is being carried out, including ancestral or native claims.

(c) On raising the level of obligation of the ESG Reporting Guide to "comply or explain", HKEx will evaluate the issue after implementation of the ESG Reporting Guide. Based on market feedback and progress, HKEx will conduct further market consultation on the disclosure content and level of obligation.

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