

# Corporate Sustainability: Time to Rethink and Connect Your Business





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## Preamble

For the past decade, movement towards growing a business in a sustainable fashion has become the talk of the town, which revolves around the three pillars of environmental, social and governance (ESG).

**E**nvironmental concern span from over expansion in harvesting natural resources, to rapid urban development without proper regulation causing irreversible damage to the world's ecosystem. In populated areas the cost of managing wastage and carbon emission has become apparent, requiring entrepreneurs to rethink on the business process that adopts efficient and clean design.

**S**ocial factors address the relationship of companies with the workforce and the overall society. Centuries of development since industrialization has seen substantial movement towards balancing the interest between employers and employees. Minimum wage, working environment, health and safety and working hours are just a tip in the iceberg on the issues to consider. Social responsible also calls for corporates to undertake voluntary contribution to help for those who are in need, according to their own capacity.

**G**overnance on the hand is the way a corporate can ensure its management can keep up with the rapidly changing and complex business environment, where laws and regulation updates regularly, whilst maintaining an operation under ethical manner. For a large multinational corporate this may involves sophisticated system of monitoring, training and third party consultation.

As claimed by Sustainability Accounting Standard Board ("SASB"), "Sustainability issues are global business issues that impacts the financial condition, operating performance, and enterprise value of companies". And as claimed by Christian Klein, CEO of SAP: in the future, profitability and sustainability will go hand in hand with the latter becoming a dimension of corporate decision making just like cost or growth..."

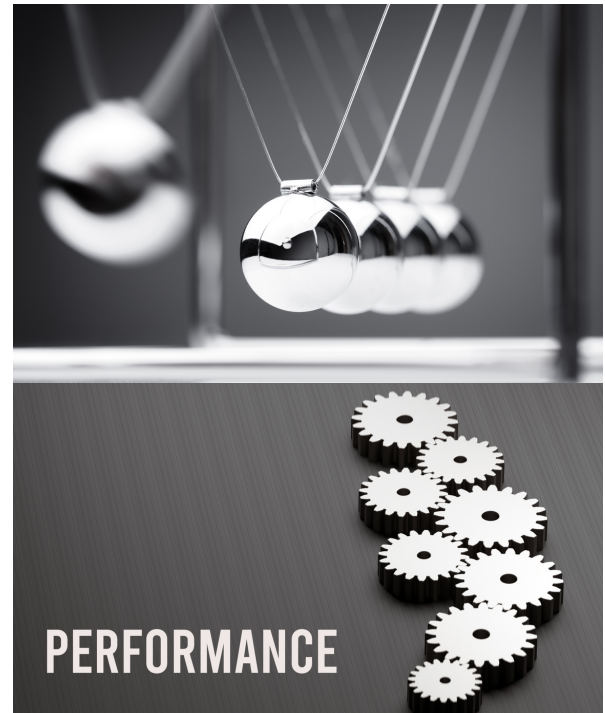




## Why Reporting is Required?

It is believed that via going through an independent and robust reporting process, businesses shall be able to objectively reflect on their performance whilst taking accountability to the surrounding environment and society.

In 2014, a report by the University of Oxford and Arabesque Partners analyzed about 200 studies to assess how sustainable corporate practices can affect investment returns. It concluded that “88% of the research shows that solid ESG practices result in better operational performance of firms and 80% of the studies show that stock price performance of companies is positively influenced by good sustainability practices” (Clark, Feiner, and Viehs 2014)



## What and How to Measure ESG?

The United Nations encourages the private investment sector to develop own reporting systems which could match with Sustainable Development Goals (SDG) adopted in a UN Summit of 2015.

Some Standards, such as proposed by Global Report Initiative and World Economic Forum, aim at providing objectives to firms as a benchmark to improve their performance in ESG.

**REFERENCE:**

- UNITED NATIONS GLOBAL COMPACT. (2021). UNITED NATIONS GLOBAL COMPACT: ADVANCING SUSTAINABLE DEVELOPMENT.

It is believed that ESG issue pose economic risks and opportunities. If such risks and / or opportunities are unknown or ill defined, appropriate resources would not be able to properly allocated and address any issues on time.

Meanwhile, it is well acknowledged that ESG factors are often interlinked, with interconnected and interdependent nature, and therefore maybe difficult to classify an ESG issue only into environmental, social or governance category. Besides while there are a lot of studies and guidelines which may help to provide suggestion of ESG factors, these factors are often be able to measured but would be difficult to assign a monetary value.

**REFERENCE:**

- WORLD ECONOMIC FORUM. (2020). MEASURING STAKEHOLDER CAPITALISM: TOWARDS COMMON METRICS AND CONSISTENT REPORTING OF SUSTAINABLE VALUE CREATION.

As at today, no single standardized approach is available regarding the calculation or presentation of different ESG metrics. Variety of analytical approaches and data sources are now available and can be based on depending on the nature of the corporation/ project and the mission of the report.

In Hong Kong, listing companies are now required to incorporate an assessment report with their annual report.

# The Examples of Applicability of ESG Factors

## Real Estate Industry

In the Real Estate Industry, adopting green measures is not only a way to gain extra plot ratio but a way to show quality and confidence to buyer.

There are many regulations and benchmarks for green buildings, especially for the emission of gases, waste and energy consumption. Since the environmental impacts brought by buildings could be great on humans and the society, increasing number of developers and investors for real estate assets are focused on the design and performance for the buildings. There are various green building rating system adopted and / or promoted by different countries, such as Building Research Environment Assessment Method Consultancy (BREEAM), Building Environmental Assessment Method Plus (BEAM PLUS), Green Building Label (GBL), Green Building Evaluation Label (China Three Star), Global Real Estate Sustainability Benchmark (GRESB) and Leadership in Energy and Environmental Design (LEED).



# Sustainability Assessment - Common for Regional and District Based Infrastructural Projects

Our significant example recently in HKSAR is the Sustainability Assessment of the Hong Kong 2030+ : Towards a Planning Vision and Strategy Transcending 2030. Based on the derived preferred development option to provide social & sustainability, economic, environmental and financial assessments.



## Impact on Enterprise Value

How sustainability matters would create or erode enterprise value is currently a concern by financial sector. The Incorporation of ESG into Business valuation practice and standards is also the trend.

Meanwhile, valuer need reliable ESG metric reporting that is consistent between companies, across geographies, and over time.

Following are areas of future concerns, as raised by IFRS Foundation:

- Asset impairment, including goodwill
- Changes in the useful life of assets
- Changes in the fair valuation of assets
- Effects on impairment calculations because of increased costs or reduced demand
- Changes in provisions for onerous contracts because of increased costs or reduced demand
- Changes in provisions and contingent liabilities arising from fines and penalties: and
- Changes in expected credit losses for loans and other financial assets

## ESG Reporting for Listed Companies in Hong Kong and Mainland China

### Hong Kong SAR

To facilitate the participation of ESG, it is common for listed companies to report their ESG activities to the public and Hong Kong Stock Exchange (HKEx). HKEx has published guidelines in recent years so listed companies would follow such principles for mandatory purpose.

REFERENCE:  
 • HK FINANCIAL SERVICES DEVELOPMENT COUNCIL. (2018). ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) STRATEGY FOR HONG KONG. (ACCESSED ON 21 JANUARY 2021)  
 • HONG KONG STOCK EXCHANGE. (HKEX). (2020). HOW TO PREPARE AN ESG REPORT—A STEP-BY-STEP GUIDE TO ESG REPORTING.

### Mainland China

As early in 2006, Shenzhen Stock Exchange (深圳證券交易所) issued a Notice about the social responsibility instructions to listed companies for an evaluation of the performance on social aspects on a voluntary basis. Since then, there were more regulations from stock exchanges and China Securities Regulatory Commission (CSRC, 中國證券監督管理委員會) for stipulating the reporting of ESG factors in the operation of listed companies.

REFERENCE:  
 • UNEP FINANCE INITIATIVE, PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI), SYNTAO GREEN FINANCE, AND UK PACT. (2019). 中國的ESG 數據披露: 關鍵ESG 指標建議。

## Evaluation of Social Value in ESG

Since the concept of social value is vague, professional bodies such as International Valuation Standards Council (IVSC) and Royal Institution of Chartered Surveyors (RICS) start to define this term and propose alternative ways for evaluating non-financial value brought by business operations or projects. Although there are existing methodologies for measuring ESG, no rigid consensus could be found for the evaluation of the non-financial aspect for social values.

# Trends



①

Awareness has been growing fast

②

List of signatories to the United Nations to support Principles for Responsible Investment

③

Growing number of ESG data and research provides as well as ranking and ratings from both mainstream and specialized providers

## Our Scope of Business

### Valuation Services for

- Initial Public Offering (IPO)
- Offer Documents / Circular
- Annual Audit
  - Goodwill & Assets Impairment Test
  - Real Estate Properties/ Machineries / Equipments
  - Financial Instruments
  - Business Combination
  - Intangible Assets
  - ESG Reporting

And More.....

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- (2) Real Estate Solution and Surveying Practice
- (3) Advisory and Global Professional Provision, Facilitation and Consultation.

Leveraging our worldwide network, we strive to provide clients with a range of comprehensive asset valuation and consultancy services.

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