



7th July 2010

TELECOMS AND FINANCIALS LEAD THE WAY ON ESG/ SUSTAINABILITY PERFORMANCE IN HONG KONG AND CHINA

Hong Kong. Specialist analytics and advisory firm, RepuTex, today launched a report detailing findings of an extensive study of the Environmental, Social and Governance (ESG) performance of 538 Hong Kong and mainland China companies.

The report is the first globally to detail the ESG risk and performance of local Hong Kong and mainland China companies. Research has been undertaken by RepuTex to support its work with Hang Seng Indexes Company Limited (Hang Seng Indexes) on the development of the Hang Seng Corporate Sustainability Index Series, due for launch in July 2010.

In its report, RepuTex analyses the ESG performance of the top 95% of companies in Hong Kong and top 300 in mainland China (A share) by average market value, a total universe of 538 listed stocks – 264 China A share and 274 Hong Kong companies (dual-listed companies classified as Hong Kong stocks).

Analysis was conducted by RepuTex against its proprietary ESG Risk Model, considering each company's exposure to geopolitical and industry ESG sensitivities, as well the adequacy of specific company management strategy, policy and practices to mitigate local ESG risks. All companies were assigned a RepuTex ESG Rating running from AAA (positive) to D (at risk).

According to RepuTex:

- Hong Kong companies outperformed their mainland China counterparts on ESG risk management practices, with 67% of Hong Kong companies achieving a 'satisfactory' BBB-Rating, compared to 43% of mainland companies.
- The highest Rating among mainland China entities was A (7 companies), while the highest score among Hong Kong companies was AA (3 companies).
- Across the universe, large cap stocks returned a high proportion of high rated companies, with 25.4% of large cap companies achieving a RepuTex Rating of A or above, while mid (6.47%) and small (9.47%) capped companies are yet to fully embrace ESG risk.
- The Telecommunications and Financials sectors were the highest performing sectors.
- High impact sectors Utilities, Materials and Energy make up 3 of the bottom 4 performing sectors – this represents some risk given the high exposure to safety, governance and environmental factors.
- Within both markets, vulnerability to environmental factors such as pollution and environmental health ranks highly, reflecting issues associated with environmental stress and air quality. In China, corporate governance issues encompassing government effectiveness, regulatory quality, rule of law and control of corruption continue to represent exposure.

Hugh Grossman, Executive Director at RepuTex observed that while ESG performance across the universe was satisfactory, key sectors have a long way to go on sustainability issues.

"While we see good performance across highly represented Telecommunications and Financials industries, the underperformance of the Utilities, Materials and Energy industries represents a risk for local firms, due largely to the high exposure of those high impact companies".



“Macro ESG exposures within mainland China and Hong Kong such as pollution, air quality and worker safety directly impact these low performing sectors, so understanding and mitigating these exposures is paramount, for both companies and investors. It’s all about being proactive, identifying risk and reducing vulnerabilities where they occur” said Mr Grossman.

Top ESG performing companies rated by RepuTex and those that meet Hang Seng Indexes’ market capitalisation and liquidity criteria are eligible for inclusion in the Index Series. The Index Series is therefore structured to capture leading companies that have a systematic process for mitigating ESG related risks. Companies which outperform their competitors on ESG parameters are better positioned to take advantage of market opportunities.

“Many firms now embrace the strategic nature of ESG as a risk management tool to identify specific risks and opportunities and manage potential exposure previously ‘unseen’ from a measurement point of view,” said Mr Grossman.

“Companies and investors that have a systematic process for measuring and understanding ESG risk, and the degree to which that risk is being managed across an industry, are likely to have a much more accurate understanding of companies as a whole, and subsequently, a higher understanding of risk/return profiles.”

Continued Mr Grossman, “Companies in both markets we think have outperformed expectations, but there is no escaping the high risk environment these firms operate within from an ESG perspective. Those companies that can take advantage of that risk and opportunity competitively are the ones to watch, particularly as market dynamics continue to change, and new revenue pressure points arise, notably around emissions trading and carbon tariffs.”

RepuTex’s research note, *ESG Exposure of China and Hong Kong Companies* is available to download via RepuTex’s website www.reputex.com

For further information/media interviews please contact:

Rita Chan
Office Manager
RepuTex (HK) Limited
Phone: +852 2899 2418
Rita.chan@reputex.com

About RepuTex

RepuTex is a leading provider of carbon, climate and sustainability risk analytics, specialising in risk information services for companies and investment professionals globally. Established in 1999, RepuTex has become the foremost knowledge source for market participants seeking to understand, track and price emerging risk exposures.

The company is headquartered in Hong Kong, with offices in Hong Kong and Melbourne. It is the only firm of its kind operating on the ground in Asia, catering to local and global companies and investors.

Analytics | Advisory | Indexes

www.reputex.com