Submission to the Hong Kong Stock Exchange on its proposed Environmental, Social and Governance Reporting Guide



3 April 2012

Executive Summary

This is a submission by Oxfam Hong Kong in response to the Hong Kong Stock Exchange's (HKEX) consultation on its Environmental, Social and Governance (ESG) Reporting Guide. We welcome the opportunity to present our views, in the interests of farmers around the world, many of whom are impoverished.

Oxfam supports the development and adoption of an ESG reporting guide for listed companies in Hong Kong by HKEX, which will encourage companies to be more transparent and accountable to all the stakeholders they impact. This is in line with international trends to promote corporate social responsibility (CSR). This measure will form an important component of Hong Kong's distinct advantage as a special administrative region of China with high standards of business integrity built on good governance, rule of law, transparency, accountability and intolerance to corruption.

Oxfam recommends that the ESG Reporting Guide be utilised to bring the ESG practices of Hong Kong listed companies closer to international practices. Oxfam also encourages the HKEX, which has indicated its intention to move from a "voluntary" to a "comply or explain" regime, to set a timeline for this process, and eventually to make ESG reporting mandatory.

An international development and humanitarian organisation working to reduce poverty, Oxfam has been supporting various CSR initiatives in Hong Kong since 2004.¹ Oxfam believes that good CSR practices can reduce poverty on a massive scale. Therefore, Oxfam takes a special interest in the large-capitalisation food and agriculture companies listed on the HKEX. A review of these companies shows that there is lack of disclosure in this sector, although some companies started to make a serious effort to act responsibly and to provide disclosure on their supply chain practices. In light of stakeholders critically impacted by the activities of food and agriculture companies, Oxfam believes that they merit special attention under the ESG Reporting Guide.

Food and agriculture companies have a critical impact on poor people, a majority of whom depend on land, water, forests and other natural resources for their food security and livelihood. It is the security of rural women, smallholder farmers and their communities' access to those natural resources that these companies can and should support and invest in. Guidance of companies has proven to be necessary as there have been series of cases where companies destroyed local livelihoods by grabbing local communities' land or polluting, clearing, eroding or destroying the nature they depend on.

Oxfam's current global campaign GROW aims to change the food system which now leaves approximately 1 billion people hungry every day. Improvement of corporate policy and performance is an important way to fight undernourishment, especially by investing in smallholder farmers and their communities instead of taking their natural resources away from them.

Oxfam therefore proposes a list of recommendations that cover the latest international standards of ESG reporting, including those related to food and agriculture companies' policies

¹ For details of Oxfam Hong Kong's work on CSR, see <http://www.oxfam.org.hk/en/csr.aspx>, retrieved 27 March 2012.

and practices related to smallholder farmers and supply chains. Oxfam believes that encouraging ESG reporting by these companies is a critical first step toward promoting CSR among them. This in turn holds great potential for helping to raise smallholders, rural women and communities out of poverty.

Introduction

Oxfam Hong Kong supports the development and adoption of an Environmental, Social and Governance (ESG) Reporting Guide for companies listed on the Hong Kong Stock Exchange (HKEX), as this will promote transparency and corporate social responsibility (CSR) in line with international trends.

Oxfam advocates that all companies bear a moral and social responsibility to contribute to stability and prosperity in the societies on which they depend and therefore require a 'social licence' to operate. We actively engage with companies to encourage transparency and integrity in their ESG performance, and to promote international best practices. We do this because we understand that companies' activities can impact communities and the environment in ways that either support or detract from our core mission, which is helping people overcome poverty. Corporate commitment to the environment, human rights, and the provision of equal opportunities can greatly support this mission.

Food and agriculture companies² and poor smallholders

Oxfam believes that poverty derives mainly from human inaction and structural injustice. This includes the injustice from agricultural supply chains where smallholder farmers, seeking a stable source of food and income for their families, find themselves in iniquitous economic relationships with commercial enterprises. Oxfam also believes that companies should be held accountable, alongside governments, for their impacts across their supply chains, including direct and indirect suppliers and socially vulnerable groups such as farmers and rural women.

Many commercial organisations, particularly traders in food, feed and biofuel supply chains as well as food-processing enterprises, depend on agricultural supply chains for raw materials for their industries. Their transactions contribute to economic growth through the transfer of resources and technologies and the provision of jobs and livelihoods to people working and residing in areas where such supply chains are situated. But commercial organisations can also harm the interests, rights and wellbeing of rural smallholder farmers, who often find themselves at the losing end of transactions with commercial enterprises that are more organised and have stronger power to negotiate, influence and sometimes dictate the terms of contracts or agreements. In addition, these companies' sourcing practices can and regularly do serious harm to farmers, rural women and their communities by taking away their land, water or other natural resources on which they depend for their livelihoods and food security.

In agricultural supply chains, food-processing enterprises play a very influential role. They serve as the link that makes it possible for some four billion tonnes of agricultural products to flow

² This submission focuses on food and agriculture companies listed at the HKEX, especially traders, food processors, retail, food and beverage brands. Oxfam points out that financial institutions too have a key role to play to increase beneficial and mitigate negative social and environmental impacts of food and agriculture supply chains. This is why banks, investors and other financial institutions (such as the International Finance Corporation (IFC)) adopted specific guidelines like the IFC framework and equator principles. Therefore, Oxfam believes much of this submission is relevant to the banks and investors listed at the HKEX.

from farmlands to consumer dining tables worldwide every year.³ In the supply chain for food processing, rural households that provide agricultural products as raw materials occupy the lowest position. Such rural households comprise a section of larger communities that are also affected by the entry or presence of commercial enterprises in their areas. Oxfam therefore believes that responsible corporate behaviour among food and agriculture companies can lead to poverty reduction among smallholders and the development of rural communities and should at a minimum not increase local poverty or food insecurity. Encouraging ESG reporting by these companies is a critical first step in promoting CSR and helping to lift smallholders and rural communities out of poverty.

Oxfam's current global campaign GROW aims to change the food system which now leaves approximately 1 billion people hungry every day. Improvement of corporate policy and performance is an important way to fight undernourishment, especially by investing in smallholder farmers and their communities instead of taking their natural resources away from them.

³ Global Reporting Initiative, Sustainability Reporting in the Food Processing Sector, 2009.

Oxfam Hong Kong's Position

1. The importance of reference to international standards

Oxfam supports the HKEX's efforts to encourage Hong Kong listed companies, through the ESG Reporting Guide, to adhere to international guidelines and standards such as the Global Reporting Initiative, the Carbon Disclosure Project, the United Nations Global Compact, the United Nations Principles for Responsible Investment, the OECD Guidelines for Multinational Enterprises and the ISO 26000 Guidance on Social Responsibility. In fact, some companies have already adopted some of these guidelines or standards. Apart from these, there are also other international standards to which the HKEX can refer, including:

- United Nations Guiding Principles on Business and Human Rights ('Ruggie Principles')
- Equator Principles
- Extractive Industries Transparency Initiative (EITI)
- Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (by the Committee on World Food Security)
- Roundtable on Sustainable Palm Oil (RSPO)
- Existing obligations under international law, including the Universal Declaration of Human Rights and other international human rights instruments

2. Moving from a "voluntary" to a "comply or explain" regime with a clear timeline

HKEX has indicated that in future it may move from a "voluntary" to a "comply or explain" regime.⁴ Oxfam endorses this aim and recommends that a clear timeline be set, to prompt companies to respond to this initiative. A number of markets, including those in Brazil, South Africa and Malaysia, have already moved to a "comply or explain" regime with regard to reporting on ESG issues. (South Africa has an "apply or explain" regime).⁵ A "comply or explain" requirement can be successfully rolled out with support from companies, shareholders, regulators and non-government organisations (NGOs). Oxfam considers that this could be done for HKEX listed companies in the near future.

3. Mandatory reporting would provide a level playing field

Many Asian and global companies that practise CSR and ESG reporting do so with the understanding that shareholders' interests are best served when the company appropriately

⁴ "Comply or explain" reporting regimes require companies to either report on designated aspects of their business or explain why they have not done so.

⁵ See Appendix I for a brief explanation of the evolution of sustainability programmes at these exchanges, including the shift to a "comply or explain" regime.

manages its relationships with employees, suppliers, customers and others with a legitimate interest in the company's activities.

As elsewhere, we believe companies in Hong Kong will ultimately adopt socially responsible policies and practices. Mandatory ESG reporting, backed up by meaningful guidance from regulators, would provide clarity and a level playing field so that socially and environmentally responsible companies are not disadvantaged by competing against companies that ignore such issues and focus only on short-term gains.⁶

4. Particular provisions for food and agriculture companies

Food companies at different points in the value chain, especially those that wield significant influence over large parts of it, have both an obligation, responsibility and a vested interest in supporting small-scale producer development. Smallholder farmers represent a vast reserve of untapped potential for increasing food production. Efforts to influence the supply chain and tap that potential can demonstrate a company's commitment to food sustainability and justice.

However, a preliminary review conducted in February 2012 of the largest capitalisation food and agriculture companies listed on the HKEX reveals a wide gap in disclosure levels in this sector. There are approximately 40 food and agriculture companies listed on the exchange, dealing in agricultural products, retail foods, hypermarkets and superstores, packaged foods and meats. As a sample, Oxfam selected companies with a market capitalisation of over US\$1 billion and reviewed their disclosures on small-scale producer-related supply chain practices. Information sources included the companies' public disclosures, websites and most recent annual reports, as well as sustainability reports or similar documents, where available. As the largest food-related companies, their current disclosures concerning small-scale producer engagement and supply chain management provide an indication of the industry's overall performance. (These points are also applicable to beverage companies.)

⁶ See Appendix II for examples of mandatory reporting.

#	Ticker	Company	Market Cap (USD)	Products/Services
1	322 HK	TINGYI HLDG CO	15,895,441,408	Instant noodles, beverages, and bakery products primarily under the Master Kong brand name in the People's Republic of China
2	151 HK	WANT WANT CHINA HOLDINGS	12,427,780,096	Rice crackers, dairy products, beverages, snack foods
3	2319 НК	CHINA MENGNIU DAIRY CO	4,900,315,136	Dairy products
4	142 HK	FIRST PACIFIC CO	4,112,879,360	Consumer food products
5	606 HK	CHINA AGRI-INDUSTRIES HLDGS	3,233,987,584	Oilseeds processing, brewing materials processing, rice trading & processing, wheat processing, biofuel.
6	1068 HK	CHINA YURUN FOOD GROUP	2,552,694,528	Meat products
7	506 HK	CHINA FOODS	2,341,036,032	Wines, beverages, kitchen foods, confectionery businesses
8	43 HK	CP POKPHAND CO	2,190,678,784	Feed products to livestock, poultry, aquaculture producers.
9	829 HK	SHENGUAN HOLDINGS GROUP	2,052,066,560	Edible collagen sausage casing products
10	1025 HK	WUMART STORES INC	2,720,829,000	Retail network of 118 supermarkets and 374 mini-marts in Beijing, Hebei, Tianjin, Zhejijang.
11	1117 НК	CHINA MODERN DAIRY HOLDINGS	1,219,405,312	Raw milk, dairy product
12	291 HK	CHINA RESOURCES ENTERPRISE	9,043,690,000	Food retail, beer, beverages
13	980 HK	LIANHUA SUPERMARKT HOLDINGS	1,584,044,000	Retail: hypermarkets, supermarkets, convenience stores, Internet sales

Table 1: Food and agriculture companies listed on the Hong Kong Stock Exchange

Notes: Market cap figures taken from 2 March 2012. Supply chain ESG disclosure comments based on contents of most recent annual report, website and sustainability report, if available.

The review revealed that although some companies made brief references to ESG issues in their supply chains, the disclosures were minimal. Most companies made disclosures related to basic food safety and quality control certification to assure consumers of product quality. This is not surprising, given recent food safety scandals and the concomitant pressure companies have

faced from stakeholders, including consumers, governments, civil society and others. There were remarkable exceptions, however – two companies disclosed initiatives to assist farmers in increasing their income and to support economic development in rural areas, one of which is predominantly state-owned.⁷ At the next level, five companies provided some information on their supply chain practices, but did not elaborate on information with respect to small-scale farmers. The remaining companies in this list made insignificant or no disclosures on ESG issues in their supply chains.

This clearly suggests that it is feasible for food and agriculture companies to provide disclosure on their small-scale producer-related supply chain practices. Oxfam therefore suggests that particular provisions about disclosing the impacts of these companies on smallholder farmers be included in the ESG Reporting Guide.

⁷ See Appendix III for details of these two examples.

Recommendations

Oxfam Hong Kong supports the development and adoption of an ESG Reporting Guide for companies listed on the Hong Kong Stock Exchange. It welcomes HKEX's recognition of the importance of ESG performance and reporting, and its efforts to encourage Hong Kong listed companies to comply with international standards as well as raising public and stakeholder expectations concerning the roles, responsibilities and conduct of business in society.

To achieve these goals, Oxfam has the following recommendations:

1. General recommendations

- (1) HKEX should take the lead in promoting CSR among listed companies in Hong Kong, in consultation with key stakeholders and the business community. This will form an important component of Hong Kong's distinct advantage as a special administrative region of China with high standards of business integrity built on good governance, rule of law, transparency, accountability and intolerance to corruption.
- (2) HKEX should learn from and adopt the good practices of other stock exchanges, such as those in London, New York, Frankfurt, Johannesburg and Sao Paulo, which have created their own sustainability indexes. Notably, both the New York Stock Exchange and the Deutsche Borse have sophisticated web-based tools that provide the public with basic ESG Key Performance Indicators (KPIs) of listed companies.
- (3) HKEX should explicitly indicate a clear timeline for moving from a "voluntary" to a "comply or explain" regime.
- (4) HKEX should promote compliance to existing international frameworks, including the ones mentioned above, to simplify comparisons between companies in Hong Kong, and between Hong Kong companies and those in other countries, recognising the need for a standard reporting framework.
- (5) HKEX should make efforts to raise awareness among listed companies of the benefits of disclosing ESG information. Uncovering and addressing negative practices can have positive impact, enhancing a company's reputation and thus its competitiveness. HKEX should require listed companies to adopt a code of conduct for its suppliers, to ensure transparency throughout the supply chain.
- (6) HKEX should put more emphasis on field level environmental and social impacts, human rights and supply chain practices in the reporting guide.
- (7) HKEX should provide ongoing training and assistance for listed companies on ESG reporting. Companies should be encouraged to formulate internal procedures to facilitate monitoring and reporting.
- (8) HKEX should work to strengthen the participation of boards of directors in the preparation of ESG reports, as a way to promote accountability.
- (9) HKEX should recognise the importance of working in partnership with local governmental and non-governmental initiatives devoted to promoting ESG practices and visibly encourage its listed companies to that end to proactively develop and participate in multi-stakeholder

initiatives and other forms of direct engagement of stakeholders, including local communities potentially impacted by their operations as well as contracted farmers.

- (10)HKEX should consider ESG reporting primarily as a compliance-based tool, with voluntary requirements eventually becoming mandatory.
- (11)HKEX should adopt a long-term strategy that creates incentives for companies to strengthen their CSR, through promotional campaigns, research and training for listed companies, policy effectiveness monitoring by field level social and environmental impact assessments and periodic reviews of companies' internal and external CSR policies.
- (12)HKEX should take a leading role in promoting ESG issues among stock exchanges in Asia and beyond, thus encouraging Hong Kong listed companies to serve as examples both at home and abroad.

2. Recommendations regarding food and agriculture companies

Considering the important role that food and agriculture companies can play in poverty reduction and sustainable development, Oxfam proposes a list of key business practices that companies in these sectors should be encouraged to follow and to disclose. The list is derived from international standards set out by the GRI Food Processing Sector Guidelines, Fair Trade,⁸ Global Good Agricultural Practices (Global G.A.P.),⁹ Roundtable on Sustainable Palm Oil (RSPO), International Federation of Organic Agriculture Movement (IFOAM),¹⁰ as well as from good practices identified by the Oxfam confederation through its fieldwork. Key practices that constitute effective CSR in this sector would include:

- (1) Working with specialised intermediaries, ideally farmer-owned organisations such as cooperatives, which support smallholders and strengthen their ability to negotiate and diversify their products and markets.
- (2) Providing fair farm gate prices and delivering fair returns that meet national wage standards and ensuring that agricultural workers' rights are protected. Delivery schedules and quality standards should be well defined to avoid manipulation.
- (3) Ensuring fair sharing of benefits and risks (e.g. production risks due to weather, pests and other factors affecting harvests) including clear commitments from companies to purchase produce (subject to agreed quality standards) at guaranteed prices and to charge set prices for inputs. Other measures include support in adapting to climate change, timely communication about supply and demand, flexibility to allow farmers to respond to changing conditions, and financial risk management schemes.
- (4) Adopting gender sensitive policies and practices based on proactive assessment of involved women livelihoods, roles, assets and challenges. Supporting diversified farm systems and avoiding making smallholder farmers dependent on one company. This could include investments that enhance trade in alternative or local markets, or markets for secondary or complementary products.

⁸ Fair Trade Resource Network, <<u>http://www.fairtraderesource.org/</u>>, retrieved 27 March 2012.

⁹ Global G.A.P., <<u>http://www.globalgap.org/</u>>, retrieved 27 March 2012.

¹⁰ International Organization of Agricultural Organic Movement, <<u>http://www.ifoam.org/</u>>, retrieved 27 March 2012.

- (5) Making governance fair and transparent. Contracts should set out clear commitments for the company to purchase products at guaranteed prices, with transparent terms of trade, quality standards and pricing structures, while also guaranteeing some flexibility for farmers. All members of the producer organisation should have copies of the contract. Setting up systems to resolve disputes and engage the wider community, in addition to smallholder farmers. Holding regular discussions between the company and the farmers. Contracts should contain clear provisions on exit arrangements.
- (6) Prior to the start or significant change of company operations (including the contracting of subcontractors to for example acquire or clear land), assessing and mitigating social and environmental impacts of practices on surrounding communities, ecosystems, local community members' rights to land and other assets, and regional food security in an open and accountable manner (including complaint resolution). Measures include assessments of livelihood impacts in the short and medium term, particularly of smallholder farmers, (including degrees of indebtedness), since smallholder farmers often bear the brunt of risk when market conditions are adverse, and in some seasons do not recover costs. Systemic risks can force them into a cycle of debt.
- (7) Providing upstream smallholder farmers with access to financial services, infrastructure, markets and training for men and women.
- (8) Developing grievance mechanisms along with other food companies, possibly with government support, through which complaints about system abuses can be brought forward by smallholder farmers.
- (9) Supporting incomes and sharing profits more evenly. Contracts should avoid including clauses that allow the takeover of assets in the event of failure to adhere to contract conditions.
- (10)Acquiring and recording free prior and informed consent before the acquisition or lease of land.
- (11)Adhering to transparent policies and practices related to genetically modified crops.

Finally, companies may disclose the extent to which the points above apply to their policies and practices (i.e. in terms of their type of products, by value and volume), or whether these are undertaken on an ad hoc basis.¹¹ Companies should also identify and describe systems through which they verify compliance and report on incidents of non-compliance.

Oxfam proposes the following steps to improve disclosure on the above-mentioned practices:

(1) HKEX should include a reference to these issues for food and agriculture companies in its ESG Reporting Guide and on its website.

¹¹ Also see Global Reporting Initiative, G3.1 Food Processing Sector Supplement, <<u>https://www.globalreporting.org/reporting/sector-guidance/food-processing/Pages/default.aspx</u>>, retrieved 27 March 2012.

(2) HKEX should invite food and agriculture companies to a sector discussion along with industry experts and NGOs to discuss these issues and the importance of their management and disclosure.

Appendix I: Three examples of "comply or explain" regimes

Johannesburg Stock Exchange

The move of Johannesburg Stock Exchange (JSE) to a "comply or explain" (now "apply or explain") reporting regime was facilitated by three factors: the support and involvement of the country's largest pension funds; the ongoing work on the King Report on Corporate Governance, which set up a series of codes for companies to adhere to; and the government's affirmative action on labour issues.¹²

JSE launched its flagship sustainability initiative, the Socially Responsible Index (SRI), in 2004. This index generated great interest among investors and has been lauded for the transparency of its index criteria.

In February 2010, in the wake of the third King Commission report, the JSE made it compulsory for all listed companies to produce an integrated report, or to explain why it was not doing so.¹³

BM&F BOVESPA

Brazil's Sao Paulo Stock Exchange (BOVESPA) launched the Novo Mercado in 2001, a segment of the stock exchange for companies that voluntarily undertake to follow stringent corporate governance practices. In 2008 the exchange merged with the Brazilian Mercantile and Futures Exchange (BM&F), and further sustainability initiatives followed.

Key milestones:

2005: Launch of Corporate Sustainability Index (ISE), with criteria based on environmental, social and economic factors.

2006: Companies were asked to prove their eligibility for inclusion in the index; those that were included began using the ISE brand in their communications as a mark of prestige.¹⁴

2010: Launch of ICO2 index, based on BM&FBOVESPA's 50 most-traded stocks, calculated based on the companies' greenhouse gas emissions.

2011: Launch of the exchange's first annual report to include financial, social and environmental issues.

¹² Michelle Joubert and Corli le Roux, Johannesburg Stock Exchange, Integrating Sustainability in South Africa, <http://www.world-exchanges.org/news-views/views/integrating-sustainability-south-africa>, retrieved 27 March 2012.

¹³ South Africa Info, SA Leads Way in Integrated Reporting, <<u>http://www.southafrica.info/news/business/king-</u> 260111.htm>, retrieved 27 March 2012. ¹⁴ World Exchange, Sustainability Criteria and Methodology, <<u>http://www.world-exchanges.org/sustainability/m-6-2-</u>

^{3.}php>, retrieved 27 March 2012.

2011: Launch of the *Em Boa Companhia* (In Good Company) programme to create dialogue and support sustainability and disclosure among listed companies. This included the launch of a sustainability guide – Novo Valor (New Value – Sustainability in Companies, How to Start, Who to Involve and What to Prioritise) – which identified 13 steps to sustainability.¹⁵

2011-2012: In December 2011, the stock exchange launched its "report or explain" initiative to encourage listed companies to publish non-financial information. It recommends that companies state in their Reference Forms to the exchange whether they publish a regular sustainability report, or explain why not.¹⁶

BM&FBOVESPA's efforts have been aided by domestic investor buy-in. For example, the country's largest pension fund (PREVI) and 17 other Brazilian pension funds are signatories to the UN Principles for Responsible Investment.¹⁷ The exchange's recent acceleration towards a "report or explain" model and its release of the Novo Valor guide have been accompanied by extensive discussions with listed companies on sustainability and training sessions on sustainability reporting.

Bursa Malaysia

Bursa Malaysia is another exchange that has established a "report or explain" regime on CSR reporting. Key milestones include:¹⁸

2006: Publication of a voluntary CSR framework for listed companies – covering the marketplace, the workplace, the environment and the community - intended as a guide to encourage companies to publish CSR reports.

2008: Publication of a status report on CSR reporting and disclosure by listed companies in 2006-2007. This report found that the companies assessed 'fell far behind international best practice.'19

¹⁵ NOVO VALOR, BM&FBOVESPA launches the "Em Boa Companhia" (In Good Company) programme, <http://www.bmfbovespa.com.br/novo-valor/en-us/news/2011/BMFBOVESPA-launches-the-Em-Boa-Companhia-20110414.asp?noticiaID=undefined&canalID=1&Titulo=BM&FBOVESPA%20launches%20the%20%22Em%20Boa%20C ompanhia%22%20%28In%20Good%20Company%29%20program>, retrieved 27 March 2012.

¹⁶ NOVO VALOR , BM&FBOVESPA Recommends Listed Companies Publish a Sustainablity Report or Explain Why They Do Not, <http://www.bmfbovespa.com.br/novo-valor/en-us/news/2012/BMFBOVESPA-recommends-listedcompanies-publish-a-Sustainability-Report-

^{20120104.}asp?noticialD=undefined&canalID=1&Titulo=BM&FBOVESPA%20recommends%20listed%20companies%20 publish%20a%20Sustainability%20Report%20or%20explain%20why%20they%20do%20not>, retrieved 27 March 2012.

¹⁷ Overview, Exchange and Sustainable Investment, <<u>http://www.world-exchanges.org/sustainability/m-6-2-1.php</u>>, retrieved 27 March 2012. ¹⁸ Sustainability, Bursa Malaysia, <<u>http://www.bursamalaysia.com/sustainability/</u>>, retrieved 27 March 2012.

¹⁹ Exchange and Sustainable Investment, 2007: Survey of CSR Reporting, <<u>http://www.world-</u>

exchanges.org/sustainability/m-6-4-3.php>, retrieved 27 March 2012.

2008: Malaysian publicly listed companies were required to include a description of their CSR activities and practices and those of their subsidiaries, and if none, to include a statement to that effect (announced on 31 December 2007).

2010: Launch of Powering Business Sustainability – Guide for Directors, which suggested steps on how to initiate and prioritise sustainability issues as part of the boardroom agenda. This was followed by a training programme of Sustainability Sessions for directors in 2011.²⁰

Bursa Malaysia's efforts have been strengthened by the fact that it is the frontline regulator for the stock market and by government policy announcements such as the identification of sustainability as one of the three goals highlighted in its New Economic Model in 2010.²¹

²⁰ Mondo Visione, Bursa Malaysia Steps Up Educative Measures to Promote CG and Sustainable Practice among Boards of Listed Companies— Exchange Issues CG Guideline In Bahasa Malaysia and Mandarin to Aid Further Understanding, <<u>http://mondovisione.uat.redantdev.com/media-and-resources/news/bursa-malaysia-steps-up-</u> educative-measures-to-promote-cg-and-sustainability-prac/>, retrieved 27 March 2012. ²¹ Sustainability, Bursa Malaysia, <<u>http://www.bursamalaysia.com/sustainability/</u>>, retrieved 27 March 2012.

Appendix II: Examples of mandatory reporting

China (Mainland): The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued a directive in 2008 stating that state-owned enterprises must improve their CSR management systems and release CSR reports.

Denmark: Since December 2008, the largest 1,100 companies must include information on CSR in their annual reports.

Sweden: State-owned companies have been required to produce annual sustainability reports in accordance with Global Reporting Initiative guidelines since 2009.

France: In 2001, France was the first country to make public company reporting on environmental and social issues mandatory. The new economic regulations (the "NER" Act) require public companies to include information on a series of topics in their annual report: status of employees, mobility of staff, work hours, social relations, health and safety, training, health policy, profits distribution and the amount of outsourcing. They must also describe their behaviour concerning communities affected by their activities in countries where they have offices.

Japan: Specified corporations have been required to publish an annual environment report since 2005 (currently standing at 700 reports, or around 40% of listed companies).

Malaysia: Since 2008, Bursa Malaysia (the Malaysian stock exchange) has required all publicly listed companies to publish CSR information in annual reports.

Sweden: State-owned companies have been required to produce annual sustainability reports in accordance with Global Reporting Initiative guidelines since 2009.

Taiwan: Regulators require all listed companies to include CSR reporting in the corporate governance statement of the annual report and prospectus, including information on the company's CSR system, measures adopted and related performance.

Appendix III: Examples of disclosure by HKEX listed food and agriculture companies

Source: Annual Reports of the following companies

COFCO: China Agri-Industries Holdings, a subsidiary of the Chinese state-owned food processing company COFCO, stated in its annual report that it employs strategies to increase farmers' income and facilitates agricultural improvements and rural village development. It has increased the role of contract farming in its production process, using a variety of contract arrangements (farm-plus-factory, farmer-plus-cooperative-plus-company, and government-plus-farmers-plus-company), to develop green or organic feedstock, and to guide farmers in growing quality crops to ensure an adequate feedstock supply.²²

Wumart: The Chinese retail company Wumart stated in its annual report that it had cut the role of intermediaries in its supply chain to lower procurement costs, reducing seven processes (from farmers to local brokers, regional wholesalers, Beijing wholesalers, farmers' markets and supermarkets to customers) to three (from farmers to distribution centres to stores). It said it had created a supply chain model with zero stock, zero wear-and-tear, zero moving and 24-hour transport of fruits and vegetables, down from 30 hours, from its Shandong base to Beijing supermarkets. Cutting down the farm to supermarket links resulted in 20% lower procurement costs for around 100,000 kilograms of fruits and vegetables delivered daily from Shandong to Beijing markets, benefiting consumers and increasing farmers' income.²³

²² China Agri-Industries Holding Limited, Annual Report 2010,

<<u>http://www.chinaagri.com/s/upload/9b61ea1533151d0a1ed4565d7204e231.pdf</u>>, retrieved 27 March 2012; China Agri-Industries Holding Limited, *CSR Report 2010,*

http://www.chinaagri.com/s/upload/309c0bd45458591a09659330069d8e4c.pdf>, retrieved 27 March 2012.

 ²³ WuMart Store Inc., Annual Report 2010, <<u>http://www.wumart.com/upload/file/2011/3/30/e_8277.pdf</u>>, retrieved
27 March 2012.