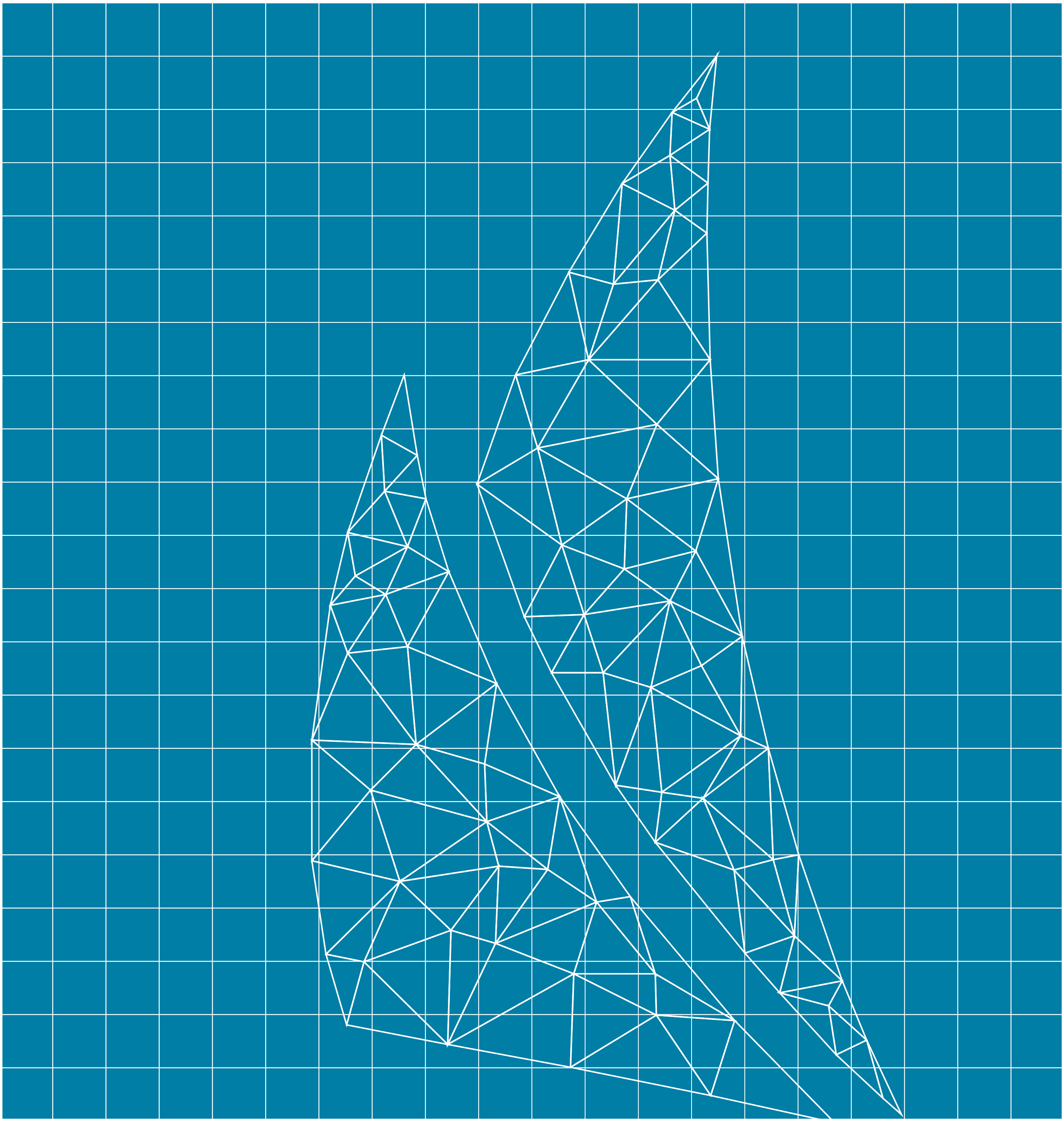
ASCENT PARTNERS
Together We Flourish

101 tips for executives: A PRACTICAL HANDBOOK TO HONG KONG

ABSTRACT OF IPOs GUIDE 2017



Why do you need a valuation

The Need for Valuation

Paul Wu
Principal

I. Valuation in Various Stages of the IPO Process

1. Pre-IPO Valuation Consideration

Prior to listing, a company may consider undergoing several restructuring activities. This helps to reorganize its operations, subsidiaries and associates into a more listing- suitable structure of groups and entities. Assets and liabilities will be transferred in and out of the various groups and entities, too. Such mergers, acquisitions or disposal transactions will require the company to implement careful accounting treatments and valuation considerations in order for its ultimately successful listing, as well as long-term growth.

In addition, company may need capital for equipment or investment to expand its operation and business along its path towards listing. The funding sources can be from angel funds, private equities, hedge funds or investment banks with investment structured as either a) straightforward equity financing in ordinary shares; b) debt financing in interest-bearing loans or bonds; or c) more complex instruments with conversion and call-back features, etc. These financial instruments are required to be recognized in the financial reports according to applicable financial reporting standards.

2. IPO Valuation Consideration

When a company decides to float its shares by undergoing the listing procedures, it needs to consider the obligations to be fulfilled. Within the various prerequisite requirements set out by the Hong Kong Exchange ("HKEx"), one of the major concerns is whether valuation of properties amongst its assets portfolio is required and included in the prospectus.

For either Main Board or GEM Board listings, the basic criteria in determining whether property valuation is required is largely revealed, in the Rules and Guidance on Listing Matters issued by HKEx (the "HKEx Rules and Guidance")[1] .

1. HKEx Main Board Listing Rule Chapter 5/GEM Listing Rule Chapter 8 Valuation of and Information on Properties

Valuation in Various Stages of IPO Process

Pre-IPO

❶ Company Restructuring:

When existing company structure is not optimized for the listing needs, restructuring is necessary to re-organize the subsidiaries by merging or transferring them into the proper part of the organization, and valuation is required.

❷ Issue of Financial Instruments:

Employee's Incentives:

- share option/appreciation right

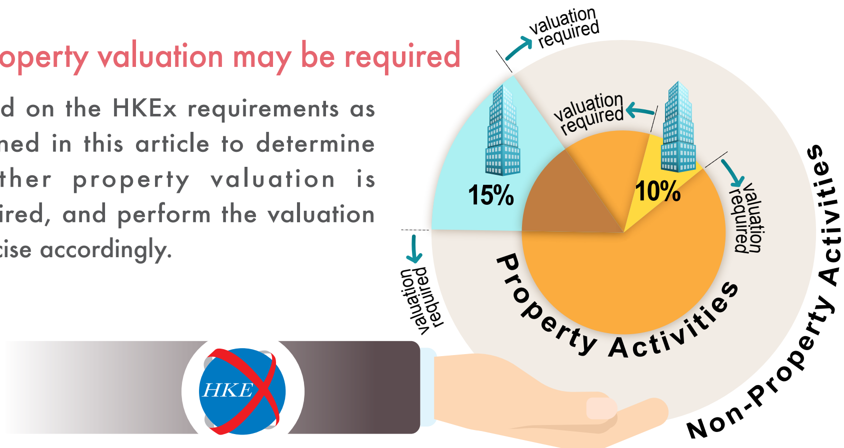
Investors: Provide financing as

- Debt – loan or bond
- Equity – preference shares
- Hybrid – convertible bond

During IPO Proceeding

❸ Property valuation may be required

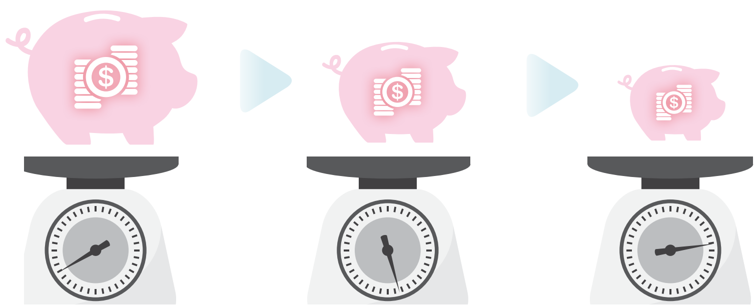
Based on the HKEx requirements as outlined in this article to determine whether property valuation is required, and perform the valuation exercise accordingly.



Post IPO

❹ Regular impairment tests

Perform impairment tests for balance sheet items to make the necessary asset value adjustment.



** Remarks: Irrespective of whether it is IPO or not, valuation is required for the investment property in accordance with the financial reporting standards.

II. IPO Valuation Subjects

1. Business Combinations[2]

Company restructuring may lead to a business combination transaction of which the acquirer obtains control of one or more businesses (acquiree) with an integrated set of activities and assets for the purpose of producing outputs and returns. The acquisition method is applied to account for each business combination and involves the following steps:

1. Identify the acquirer

- **For each business combination, one of the combining entities shall be identified as the acquirer, which obtains control of another entity.**

2. Determine the acquisition date

- **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.**

3. Recognizing and measuring the identifiable assets acquired, the liabilities assumed in the acquiree

- **As at the acquisition date, the acquirer shall recognize, separately from goodwill , the identifiable assets acquired and the liabilities assumed (including contingent liabilities) in the acquiree at their fair values (i.e. the fair value of the net asset value).**

4. Determining consideration transferred

- **The consideration transferrred in the acquisition shall be measured at fair value. Examples of potential forms of consideration include cash, contingent consideration, ordinary shares, options, etc.**

5. Recognize and measure goodwill

- **The acquirer shall recognize goodwill as of the acquisition date measured as the excess of the fair value of the consideration transferred (mentioned in point 4 above) over the fair value of the net asset value of the acquiree (mentioned in point 3 above).**

(a) Intangible Assets Identification & Treatment

Intangible assets are most often the key drivers behind an acquirer making the acquisition consideration. Hence, it is important to identify and measure the fair value of intangible assets so that they are accurately accounted for their future benefits.

Intangible assets by definition are identifiable non-monetary assets without physical substance[3]. Brand names, patents, licenses, customer relationships, and distribution rights are some common intangible assets. They can be valued by adopting the following approaches[4]:

2. Hong Kong Financial Reporting Standard 3 Business Combination

3. Hong Kong Accounting Standard 38 Intangible Assets

4. Hong Kong Financial Reporting Standard 13 Fair Value Measurement

Market Approach

- uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) intangible assets

Cost Approach

- reflects the amount that would be required currently to replace the service capacity of an intangible asset (often referred to as current replacement cost)

Income Approach

- converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts

The useful Life of the intangible assets must also be determined properly as it has a profound impact on the accounting treatment and in turn, the earnings of subsequent years. The different treatments and accounting effects of the differnt type of useful life of the intangible asset are as follows[5,6] :

Lifetime	Subsequent Treatment	Accounting Effect
Finite	• Amortization • Conduct impairment test, if impairment indication exists	• Amorization expense over its useful life • Less surprise on impairment loss
Indefinite	• Conduct impairment test annually	• No annual amortization effect • Possible impairment loss

(b) Indemnification Assets Identification & Treatment[7]

The vendor in an acquisition may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. As a result, the acquirer obtains an indemnification asset. Profit guarantee is one of the common indemnification assets. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at fair value.

At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset, subject to any contractual limitations on its amount. The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

5. Hong Kong Accounting Standard 38 Intangible Assets

6. Hong Kong Accounting Standard 36 Impairment of Assets

7. Hong Kong Financial Reporting Standard 3 Business Combination

(c) Contingent Liabilities Identification & Treatment[8,9]

Generally, a contingent liability (e.g. financial guarantee contract and penalty clause in customer contract) is either:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - the amount of the obligation cannot be measured with sufficient reliability.

Such provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

However, according to HKFRS 3 Business Combinations, a contingent liability assumed in a business combination would be recognised as at the acquisition date if it is a present obligation that arises from past events and its fair value can be measured reliably. After the initial recognition and until the liability is settled, cancelled or expires, a contingent liability recognised in a business combination shall be measured subsequently at the higher of:

- the amount that would be recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less cumulative amortisation.

(d) Goodwill Recognition & Treatment

Goodwill is an intangible asset that can only be recognized during a business combination transaction as the excess of the total consideration over the fair value of the net assets.

Goodwill has indefinite lifetime and it is subject to an annual impairment test[10]. While goodwill is not subject to annual amortization, it is possible to have impairment loss wich may affect the earnings significantly.

8. Hong Kong Financial Reporting Standard 3 Business Combination
9. Hong Kong Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets
10. Hong Kong Accounting Standard 36 Impairment of Assets

The table below summarizes whether a valuation is needed and generaliy adopted valuation practices for common asset and liability items in a business combination.

Account Item	Need a Valuation?	Generally Adopted Valuation Practice
Current Assets		
Cash and cash equivalent	X	Usually considered its carrying value as a proxy of its fair value
Trade Receivables	X	Usually considered its carrying value as a proxy of its fair value
Inventories		
Finished Goods	✓	Measured at fair value to be determined by selling price less the sum of (1) cost of disposal; and (2) a reasonable profit allowance for the selling effort
Working in Progress	✓	Measured at fair value to be determined by selling price less the sum of (1) cost to complete; (2) cost of disposal; and (3) a reasonable profit allowance
Raw Material	✓	Measured at fair value to be determined by current replacement costs
Non-Current Assets		
Financial instruments	✓	Measured at fair value to be determined by appraisal
Long Term Receivables	✓	Measured at fair value to be determined by present value of the amounts to be received, less allowances for uncollectibility and collection costs.
Indemnification Assets	✓	Measured at fair value to be determined by appraisal, including effects of future cash flows collectibility
Property, Plant and Equipment	✓	Measured at fair value to be determined by appraisal
Intangible Assets	✓	Identified if it either is separable or arises from contractual or other legal rights; and measured at fair value to be determined by appraisal
Goodwill	✓	Measured by difference between the acquisition consideration and the fair value of the net asset value
Current Liabilities		
Short Term Loan	X	Usually considered its carrying value a proxy of its fair value
Trade Payable	X	Usually considered its carrying value as a proxy of its fair value
Non-Current Liabilities		
Long Term Loan	✓	Measured at fair value to be determined by present value of amounts to be disbursed in settling the liabilities
Contingent Liabilities	✓	Recognised if it is a present obligation that arises from past events; and measured at fair value to be determined by appraisal
Financial Instruments	✓	Measured at fair value to be determined by appraisal

2. Financial Instruments

A company may issue financial instruments to raise capital for funding needs, or as incentives to its key personnel, shareholders, associates or contractors to contribute to future benefits.

(a) Convertible Bond

Convertible bond is one of the common financial instruments in the pre-IPO stage. It grants the bondholder a right to convert the bond into shares based on a determined conversion price.

The accounting treatments of convertible bond for issuer at the initial and subsequent measurements are different and are summarized as follows[11]:

	Balance Sheet	Income Statement	Cash Flow Statement
Initial Measurement	• Liability Component: measured at fair value • Equity Component: Face Value - Liability Component	• No profit or loss effect	• Increase cash flow from financing activities
Subsequent Measurement	• Liability Component: measured at amortized cost • Equity Component: measured at cost	• Interest expense arising from amortization	• Cash outflow arising from coupon or principal repayment

(b) Share Options

Companies often issue share options to its directors, employees, or contractors to recognize their achievement and to encourage their further contributions. For a listed company, the terms of its share option scheme are governed the HKEx Rules and Guideance.

Pursuant to the HKEx Rules and Guidance, the basis of determination of the exercise price is as follows[12]:

"The exercise price must be at least the higher of:

(i) The closing price of the securities as stated in the Exchange's daily quotations sheet on the date of grant, which must be a business day; and

(ii) The average closing price of the securities as stated in the Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

For the purpose of calculating the exercise price where an issuer has been listed for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing."

When share options are being issued, in addition to the consideration of the human capital aspect of providing incentives, a company should be aware of the impact of the terms of the share option scheme to its financial position. The valuation of the share option should be performed to assess and analyze the potential financial impacts and accounting treatments prior to issuance of share option. The following are items to be considered:

11. Hong Kong Accounting Standard 32 Financial Instruments: Presentation; and HKAS 39 Financial Instruments: Recognition and Measurement

12. HKEx Main Board Listing Rule Chapter 17/GEM Listing Rule Chapter 23 Share Option Schemes

Term Item	Valuation/Impact Description
Exercise Price	The higher the exercise price relative to the stock spot price, the lower the option value
Maturity	The longer the maturity, the higher the option value
Vesting Period	The duration of the vesting period has two different impacts: • The longer the vesting period, the higher the overall option value; however, • Instead of having the option cost to be recognized at the issuance date, the overall cost will be amortized over the vesting period, and hence, mitigating the financial burden all at once at the initial financial reporting year.

3. Property

As mentioned above, a company may possess properties and the associated property activities are determining factors on whether property valuation is required.

The following is a summary to determine whether a property valuation is required by the HKEx in the IPO exercise[13]:

Company's property interests forms part of property activities	✓/X
Property interests forms part of property activities <1% carrying amount of its total assets	X
The total carrying amount of property interests not valued >10% of its total assets	✓

Company's property interest for non-property activities	✓/X
Carrying amount of a property interest ≥15% carrying amount of its total assets	✓
Single property interests has a carrying amount ≥15% carrying amount of its total assets	✓

Notes:

✓ Valuation required   X Valuation not required

In accordance with the HKEx Rules and Guidance, the "carrying amount" is the amount at which an asset is recognized in the most recent audited consolidated balance sheet of the group as disclosed in the listing document after deducting any accumulated depreciation (amortization) and accumulated impairment losses. Whereas "total assets" is, the total fixed assets, including intangible assets, plus the total current and non-current assets, as shown in the latest audited consolidated financial statements in the accountant's report in the listing document.

13. HKEx Main Board Listing Rule Chapter 5/GEM Listing Rule Chapter 8 Valuation of and Information on Properties

III. Valuation Practice

1. Property Valuation Methodology

The aim of valuation for IPO, is to appraise the market value for those properties whereas assessment is required corresponding to the HKEx Rules and Guidance. It is broadly accepted that the comparison method or the market approach is the best method given the valuation figures are largely substantiated by market transaction evidences.

Valuation Methods

Comparative Method

- compare the subject property with sale or rental transactions of similar properties
- apply the comparable market transactions as an indicator
- formulate realistic adjustments regarding time, location, building age, size, design, quality, plot ratio

Discounted Cash Flow Method

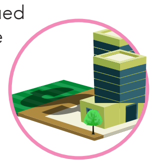
- analyze the historical operating data and make assumptions about future market conditions
- anticipate the future income stream receivable and outgoings for a term
- capitalize the net income flow into present value at an appropriate discount rate

Residual Method

- ascertain the development proposal, work out the gross development value of a property upon completion
- deduct the cost of development
- take into account the time for completion and reflect it on the residual value of the property

Cost Method

- consider the cost to reproduce or replace in new condition of the subject property
- make reference to the current construction costs for similar buildings and structures in the locality
- deduct the allowance for accrued depreciation or obsolescence from physical, functional or economic causes



Profit Method

- ascertain the subject property's historical operating profits and performance
- make allowance for outgoings in arriving at the net operating profit and any unusual revenues or expense
- capitalize the realized profit with a realistic rate

Investment Method

- determine the future rents the property will produce
- capitalize the future rent at the current discount rate over the remaining tenure of the property
- construct appropriate adjustments or deductions

2. Property Valuation Workflow

Carrying out a property valuation is often comprised with the following procedure:

Property Valuation Workflow

Appointment

Confirm appointment with client and define scope of services and assets to be valued

Preparation

Ascertain status of and information pertaining to assets to be valued

Inspection

Conduct site inspection to check accuracy of information and condition of assets

Drafting

Assemble, examine and analyze pertinent market information. Formulate valuation models with assumptions based on adjusted market information. Draft valuation report.

Review

Provide justifications and explanations on feedback given by other professional parties

Valuation date

Adjust valuation date according to status of IPO process and fine-tuning valuation

Completion

Finalize valuation report with reference to legal opinion (developing market properties)
Liaise with printer for bulk printing and sign off

3. Attributes of Professional Valuer

A professional valuer needs to be competent, capable and objective[14]. Parties involved in the IPO process, such as auditor, financial advisor, etc, would evaluate whether the valuer has the necessary competence, capabilities and objectivity. Details of the attributes of a professional valuer are set out as follows:

Attribute	Description	Factors to Affect the Character
Competence	relates to nature and level of expertise of the valuer, who should have widespread recognition of their expertise in the stated discipline	• previous work experience of the valuer • valuer's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition • published papers or books written by the valuer
Capability	relates to ability of the valuer to exercise that competence in the circumstances of the engagement	• geographic location of the valuation subject • availability of time and resources to perform the valuation
Objectivity	relates to possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the valuer	• whether the valuer is subject to self-interest threats, advocacy threats, familiarity threats, self-review threats or intimidation threats

Moreover, the HKEx Rules and Guidance requires valuations should be prepared by qualified valuer which is summarized as:

Definition of independence and qualified valuer[15]

	Valuer	Role	Employed by
A valuer is not independent if:	Individual	Officer/Servant/Proposed Director	Issuer/ Issuer's subsidiary or holding company/subsidiary of the issuer's holding company or any associated company
	Firm or Company	Issuer's subsidiary or holding company/ subsidiary of the issuer's holding company/partners, directors or officers of the Firm is an officer or servant or proposed director	
	Properties	**Qualification**	
A valuer is a qualified valuer only if he/she is authorized to value:	Inside HK	Fellow or associate member of The Royal Institution of Chartered Surveyors (Hong Kong Branch) or The Hong Kong Institute of Surveyors	
	Outside HK	With appropriate professional qualification and experience of valuing properties in the same location and category	

14. Hong Kong Standard on Auditing 500 Audit Evidence

15. HKEx Main Board Listing Rule Chapter 5/GEM Listing Rule Chapter 8 Valuation of and Information on Properties

• *Practical Tips* •

- The terms and conditions of the financial instrument significantly affect its value. Extra care and due diligence is required when structuring the subscription agreement of the financial instruments. Consult the financial advisor and/or valuation experts to avoid surprises.

- The comparison method or the market approach is usually the most frequently used and accepted approach given the figures are supported by objective market evidence.

- It is required by HKEx that more information needs to be disclosed in the valuation report, such as the rationale, assumptions, joint venture interests and legal opinions, when income approach or residual method is adopted, especially for properties located in developing property markets.

Contact Information

ASCENT PARTNERS
Together We Flourish

Address: 21/F, Hong Kong Trade Centre,
161-167 Des Voeux Road Central, Hong Kong
Tel: (852) 3679 3890
Fax: (852) 3579 0884
Website: www.ascent-partners.com

Why do you need a ESG Report

ESG Reporting - Sustainable Development is Key

Hauman Yeung

Director - Corporate Advisory

Overview

Following a consultation with the market in 2015, the Stock Exchange of Hong Kong issued a revised version of Appendix 27 Environmental, Social and Governance ("ESG") Reporting Guide in December 2015 to proposed amendments in order to strengthen the ESG Reporting requirements from voluntary to a comply or explain basis.

Starting from 1 January 2016, the amended Main Board and GEM Board Listing Rules ESG Reporting Guide will be applied to all the listed companies in Hong Kong on both Main Board and Growth Enterprise Market ("GEM") of the HKEx. The Guide concerns Environmental and Social subject areas, whereas the Governance part is to be addressed in the separate Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Main Board Listing Rules. For the disclosure of environmental KPIs, one year buffer was granted. All companies will need to disclose their detail environmental data no later than 2017 financial year. If the company decides to issue a standalone ESG report, it should be published no later than three months after the publication of its annual report.

History of ESG

The origin of ESG reporting roots from social responsible investment traced as far back as the 18th Century in UK, when a number of religious-based investment and pension funds incorporating the so-called negative screens into their investment philosophy, started scanning their investment portfolio by avoiding industries like tobacco, alcohol and gambling, etc.

The concept of selective investment has continued for centuries. In 1981, Freer Spreckley published *Social Audit – A Management Tool for Co-operative Working*, he stated that enterprises should measure and report on financial performance, social wealth creation, and environmental responsibility. In 1998 John Elkington, co-founder of the business consultancy SustainAbility, published *Cannibals with Forks: the Triple Bottom Line of 21st Century Business* in which he identified the non financial considerations which should be included in the factors determining a company's value. The "triple bottom line" he referred to was the financial, environmental and social factors.

In 1970s, Milton Friedman argued that social responsibility adversely affects a firm's financial performance and that regulation and interference from big government will always damage the macro economy. But numerous reports and studies began to appear in the late 1990s that support arguments to the contrary.

Efforts to measure company performance and the impact of ESG improvements on results have gained momentum since the issue first started attracting increased attention in the early 1990s. Since 1990, the social index (MSCI KLD 400) returned an average annual total return of 10.46% compared with the S&P 500's 9.93%

Global trend

The United Kingdom amended the Companies Act in 2013. It requires all quoted companies to disclose information about their greenhouse gas emissions, human rights and gender diversity performance, and other ESG information. The amendments to the 1995 Pensions Act requires pension funds to disclose in the Statement of Investment Principles the extent to which ESG considerations are taken into account in the selection, retention and realization of investment.

The Securities and Exchange Commission of the United States issued a set of guidelines on climate disclosure in 2010. It requires companies to disclose how the impact of climate change affects their businesses in their annual report.

The EU Council adopted the “Directive on disclosure of non-financial and diversity information by certain large undertakings and groups” in September 2014. It requires disclosure of a range of ESG related information by listed companies and other designated entities with more than five hundred employees.

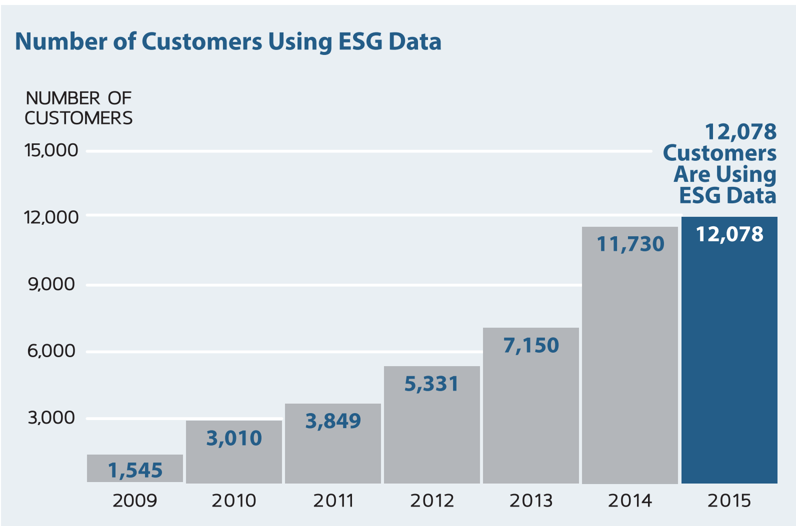
In 2008, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and Bursa Malaysia also required listed companies to disclose their ESG performance.

Why is ESG important

Every investor looks for outstanding financial performance in the companies in their portfolio and in prospective investment. When determining the long-term value of a company’s security, an enterprising investment analyst will often ask, beside financial indicators, what other factors will differentiate this company’s performance from its peers?

The best companies strategically manage all aspects of the business and ensure that their investors, as well as other constituents of the company, have enough information to understand the drivers of, and risks to, sustainable financial performance. Studies found that greater transparency of public companies in disclosing non-financial (ESG) data results in lower volatility. Hence, investment managers that have examined and integrated this information into their processes have benefited.

Today, ESG Corporate performance factors are important indicators for investors in the global investment trend. Increasing numbers of investors are turning to ESG performance frameworks that indicate long term sustainability of the corporation.



Customers using ESG data (from Bloomberg)

How companies benefit by adopting ESG initiatives

A good ESG report can display to investors how the reporting company manages its environmental and social challenges and risks. A good ESG report also indicates the companies' effort in improving corporate governance, increasing transparency, and thereby reducing financial risks. The process of reporting also helps a company to access it's risk and performance on different non-financial aspect.

What do companies have to report

Companies have to report on Environmental and Social aspects in their report. Environmental criteria look at a company's energy use, waste, pollution and natural resource conservation. They also evaluate which environmental risks might affect a company's income and how the company is managing those risks.

Social criteria look at the company's business relationships. Do the company's working conditions show a high regard for its employees' health and safety? Does it work with suppliers that hold the same values that the company itself claims to hold? Does the company donate a percentage of its profits to the community or perform volunteer work?

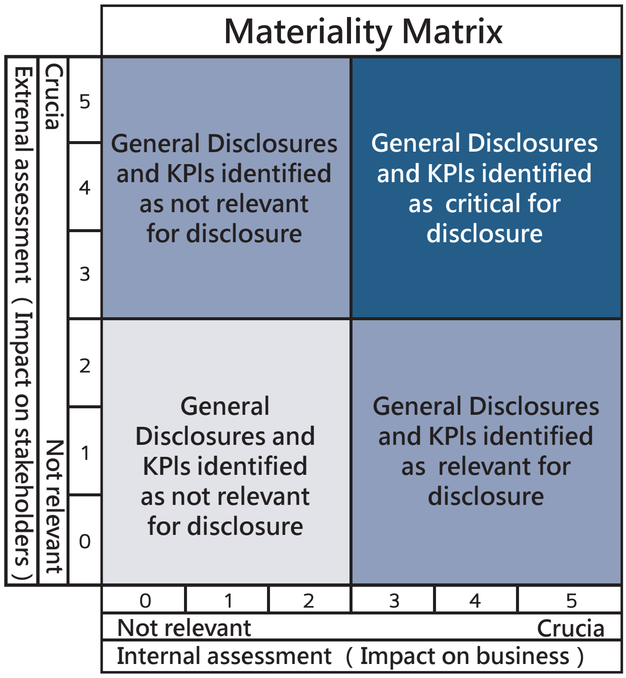

Operating practice
Social employment labour standard
Environment
B8 COMMUNITY INVESTMENT
Engage in community services
B7 ANTI-CORRUPTION
Forbid bribery, extortion, fraud and money laundering
B5 SUPPLY CHAIN MANAGEMENT
Manage environmental and social risks of the supply chain
B6 PRODUCT RESPONSIBILITY
Manage product service related health and safety, advertising, labelling and privacy matters
B4 LABOUR STANDARDS
Prevent child and forced labour
B3 DEVELOPMENT AND TRAINING
Improve employees' knowledge and skills
B2 EMPLOYEE PROTECTION
Provide a safe working environment
B1 EMPLOYMENT
Manage compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity and diversity
A1 EMISSIONS
A1.1 Types of emission and emission data
A1.2 Greenhouse gas emissions
A1.3 Hazardous waste
A1.4 Non-hazardous waste
A1.5 Mitigation measures
A1.6 Waste handling, reduction initiatives and results
A2 USE OF RESOURCES
A2.1 Energy and consumption
A2.2 Water consumption
A2.3 Energy use efficiency
A2.4 Water use efficiency
A2.5 Packaging material
A3 THE ENVIRONMENT AND NATURAL RESOURCES
A3.1 Impact on the environmentand management
ESG reporting
Frameork
Operating practice (B5-B8)
Social employment labour standard (B1-B4)
(Environment (A1-A3)

HOW DO COMPANIES PREPARE THEIR ESG REPORTS

Here are 7 easy steps to consider when preparing for an ESG report:

Materiality assessment Matrix:

The matrix plots ESG issues in terms of two dimensions: the importance or attractiveness of the issue to stakeholders and the importance of the issue to the company in terms of the likely influence of the initiative(s) on business success.



Criteria for writing the report :

The following Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented:

- Materiality – Report on ESG aspects and issues that are considered important for reflecting the organization's economic, environmental and social impacts or substantively influence the assessments and decisions of stakeholders.
- Quantitative - Provide measurable KPIs and targets wherever possible and supplement them with explanatory narrative.
- Balance - Ensure that the disclosure is an unbiased and inclusive account of your ESG performances. Report both "good" and "bad" news.
- Consistency - Use consistent methodologies to report on and track the trend of your ESG data for meaningful comparisons.

Stakeholder engagement plan:	
Overview	
Subject of engagement	Define subject of engagement, e.g. workers' issue
Strategic objectives	To understand the concern of trade unions and works
Engagement method (e.g. telephone, meeting, etc)	memos, emails, phone calls
Preparation Plan	
Send invitations	Issue memos, send emails and make phone calls
Prepare materials for stakeholders	Explain the purpose the engagement, define purpose
Decide agenda for each engagement activity	E.g. Working condition, working hours, reason of high turnover rate
Determine logistic and process for engagement	Arrange venue, snack preparation, etc
Risk Assessment	
Define Risks	E.g. Too much overtime, bad working conditions
Contingency plan	

The Path Ahead

The development of ESG factors as considerations in investment analysis is now considered to be inevitable. Companies are working harder than ever to develop and implement ESG initiatives. This is the right moment for thoughtful investors and assets managers to analyze ESG more comprehensively.

Non-financial ESG measures offer clear advantages over measurement systems based on financial data. Financial evaluation systems generally focus on short term performance against accounting requirement. They do not deal with progress relative to customer requirements or competitors, nor other supply chain issues.

By supplementing accounting measures with non-financial data about ESG performance, companies can provide another facet for managers to address long-term risk.

• *Practical Tips* •

- The Guidance on Environmental KPIs issued by HKEx contains data collection methodologies, and practical guidance on how to calculate the data and report the information called for under each of the KPIs in "Subject Area A. Environmental" of the ESG Guide. However, this guidance only contains calculation methods that suitable for Hong Kong operation. Most of the listing companies in Hong Kong have their operations in China, companies that should research on the emission factors in China before they start the calculation.
- The Guidance on Environmental KPIs don't have any figures and calculation methods on agriculture and livestock industry. These two industries do have a major negative contribution on carbon emission. Companies need to take extra care on carbon emission for these two industries.
- Companies can choose to issue the ESG report with the annual report, or within three months after publishing of the annual report. Companies can also choose to issue the report in electronic format or paper format. Some companies have chosen to issue the report in electronic format because of environmental concern.

Contact Information

Ascent Partners
Together We Flourish

Address: 21/F., Hong Kong Trade Centre, 161-167 Des Voeux Road Central, Hong Kong
Tel: (852) 3679-3890
Fax: (852) 3579-0884
Website: www.ascent-partners.com

ASCENT PARTNERS
Together We Flourish