Survey of Sustainability Reporting 2022 — China Insights

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Foreword

In 2022, KPMG released its high-profile Big Shifts, Small Steps — Survey of Sustainability Reporting 2022, which analyses the sustainability reports issued by 5,800 leading companies across 58 countries, territories and jurisdictions. The survey shows that sustainability reporting is becoming increasingly popular globally; about 80 percent of leading enterprises have released sustainability reports, though improvements can still be made in certain key areas of sustainability and Environmental, Social and Governance (ESG) reporting.

As the second largest economy in the world, China is increasingly making a global impact and the country's enterprises are showing significant improvement in sustainability reporting. Overall, China has made progress in aligning with global trends and maintaining pace with global efforts. The country is working on key areas, such as ecological conservation and environmental protection, and gaining support from a wide spectrum of stakeholders to explore new possibilities in sustainability reporting against the backdrop of green development.

The form and systems of sustainability reporting are changing rapidly around the world and enterprises must prioritise self-improvement strategies to address this changing environment. The survey depicts a bright picture of sustainability reporting in China, while also pinpointing certain inadequacies. Rome was not built in a day, and time is needed to catch up with international standards, but Chinese enterprises are quick in adapting local specifics and learning from successful cases to create development plans suited to local needs.

This report supplements KPMG's Survey of Sustainability Reporting 2022 and aims to provide leading insight into sustainability reporting adopted by Chinese enterprises, including the latest developments and emerging trends in ESG. It summarises three important directions for sustainability reporting in China: first, analysing materiality and driving stakeholder engagement; second, responding positively to the "dual carbon" goals and proactively addressing climate change; third, improving ESG disclosure standards and assurance to enable higher credibility and explore win-win opportunities in corporate reporting. We expect this survey to provide a global perspective for Chinese enterprises and assist in their future development.

In recent years, Chinese enterprises have stepped up their efforts to integrate ESG into their business development strategies, not only for supporting the country's "dual carbon" goals, but also maintaining their leading edge while tapping into the potential value and resilience of their businesses in an increasingly competitive environment. Over the past year, we have seen a rapid development and increasing stringency in ESG disclosure standards. High-quality ESG disclosures help companies communicate their sustainability vision and opportunities to stakeholders, and are also critical to obtain financing from the market. In this China Insights report, we summarise three key areas of focus to serve as an introduction to ESG disclosures and share KPMG China's insights with Chinese enterprises.

Wei Lin
Partner, Head of Environmental, Social and Governance
KPMG China

Focus areas

Focus area 1: Analysing materiality and driving stakeholder engagement

Companies are increasingly recognising that stakeholder engagement is critical to improving the quality of sustainability reporting, and that materiality assessments are imperative in driving this engagement. There is a positive trend in China's development in this area. The 2022 survey highlights the more demanding challenges of information disclosure: the majority of companies in the sample reported ESG-related information mainly in a narrative form, with only 2% of G250 and N100 companies[1] disclosing the corresponding quantitative or financial data. In addition, the disclosures made under the Social and Governance pillars need to be improved. As China pays increasing attention to these factors, with the aid of materiality assessments, the quality of disclosures by Chinese companies is expected to improve.

[1] Definition of the two types of selected enterprises in this survey. G250: world's 250 largest companies by revenue based on the 2021 Fortune 500 ranking; N100: worldwide sample of the top 100 companies by revenue in 58 countries, territories and jurisdictions.

Focus area 2: Responding positively to the "dual carbon" goals and proactively addressing climate change

In pursuit of more transparent and open reporting, companies are taking on a greater responsibility for addressing climate risk. While companies have made significant progress in disclosing carbon reduction targets and their performance in relation to carbon indicators, other key areas are left lagging. For example, less than half of companies currently consider biodiversity loss as a risk. On a positive note, most industries are now recognising this risk and the introduction of the Taskforce on Nature-related Financial Disclosures (TNFD) and the Corporate Sustainability Reporting Directive (CSRD) frameworks are expected to improve reporting in the near future. In addition, most companies recognise that in order to meet their targets they must reduce their own carbon emissions, rather than relying solely on carbon credits. China is implementing a "dual carbon" strategy, promoting the transition to a low carbon economy and proactively participating in the global governance of climate change.

Focus area 3: Promoting ESG credibility and exploring win-win opportunities through new regulations

As regulations improve over time, regulators and non-profit standard setters around the world have taken important actions on non-financial disclosures. China is following this trend by issuing its first voluntary guidance on corporate ESG disclosures, laying the groundwork to maintain parity with the rest of the world. Independent, external assurances of sustainability information can enhance the credibility of sustainability reports. The introduction of new regulations and further supervision may increase the assurance rate among N100 companies in the coming years. Following a decline in 2020, the G250 assurance rate increased in 2022, largely driven by trends in China. The actual assurance rate in 2022 for G250 companies, including China's new entrants, increased slightly from 62% in 2020 to 63%. While this is to be welcomed, China's assurance rate is not yet on par with global levels. More companies are encouraged to seek ESG assurance to further improve the transparency and openness of their reports.

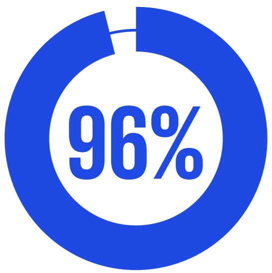
Overall reporting and the performance of Chinese companies

The continuously increasing level of sustainability reporting across the globe is encouraging. Almost every G250 company has released a sustainability report in 2022; 96% having made disclosures on sustainability or ESG-related matters. By region, the reporting of sustainability among N100 companies has grown steadily, from approximately two-thirds a decade ago to 79% now.

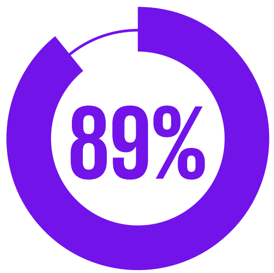
China accounts for the largest number of companies among the G250 ranking. The number of Chinese G250 companies has grown from 61 in 2020 to 74 by 2022, accounting for 30% of all G250 companies. Meanwhile, we see a marked increase in the sustainability reporting rate of China's N100, which increased from 78% in 2020 to 89% in 2022. The sustainability reporting rate is expected to get closer to the global level, driven by new laws and regulations that will be introduced in this area.

Sustainability reporting rates (2022)

G250



China's N100



Base: 5,800 N100 companies and 250 G250 companies
Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

Based on the published sustainability reports, it was found that preferences for which reporting standards were used varied across jurisdictions. For example, the Global Reporting Initiative (GRI) was adopted by a majority of companies in jurisdictions like Singapore and Chile, while the Sustainability Accounting Standards Board (SASB) standards were the most used by companies in the US, Canada and Brazil. According to the survey, while these two voluntary frameworks were the most popular globally in 2022, there were also jurisdictions (such as South Africa, Malaysia, and India) that used local stock exchange guidelines as their main reporting framework. That list also included China.

In 2022, **61%** of China's N100 companies adopted the ESG reporting guidelines issued by the Hong Kong, Shenzhen and Shanghai stock exchanges

Overall, the GRI remained the most widely used standard globally, but companies should prepare for ESG reporting to become mandatory as regulations in this area rapidly evolve in their respective jurisdictions. In addition, the fact that there are a number of frameworks to choose from in the market makes it much more challenging to collaborate in this area at a global level. Fortunately, as standards set out by the International Sustainability Standards Board (ISSB) and the CSRD are now coming into being, multinational companies will be able to coordinate and move forward in this area.

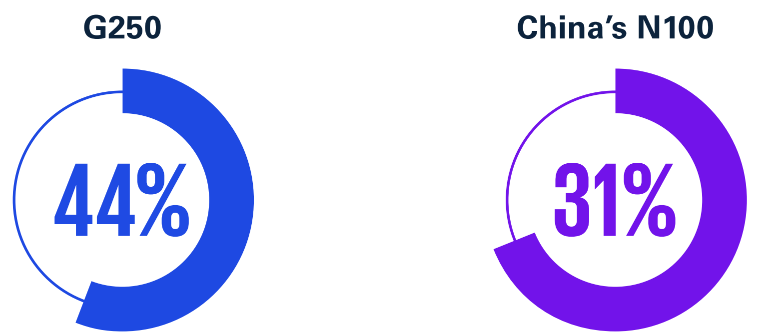
Focus area 1: Analysing materiality and driving stakeholder engagement

Due to stakeholders increasingly expecting companies to tell their own ESG narratives, it has become a pressing trend for businesses to report on ESG-related issues. Meanwhile, companies are also becoming increasingly aware that their involvement is key to improving the quality of sustainability reports. According to the survey, nearly three-quarters of surveyed companies that had published an ESG report performed materiality assessments of the topics that were disclosed in the report. However, only 64% of N100 companies in China did so, highlighting that further progress is needed.

Materiality assessments are considered the cornerstone of ESG reporting, as well as the starting point for making valid disclosures. Assessing the impact of ESG-related topics in a given context can drive stakeholder engagement. The report also surveyed how companies reported their impacts on themselves, on their stakeholders, and on society as a whole. This showed that 39% of G250 companies reported all three impacts, compared to less than a third of N100 companies. The reason for this difference may be that the former set of companies is more stakeholder-driven. With all the efforts to make company reporting on sustainability-related information mandatory, KPMG expects that there will be an increase in the number of companies performing such materiality assessments in the future.

The 2022 survey also highlighted the more demanding challenges faced by large companies in disclosing ESG-related information. The majority of companies in the sample reported ESG-related information in a narrative form; only 2% of G250 companies and N100 companies disclosed the corresponding quantitative or financial data. In addition, the disclosures made under the Social and Governance pillars need to be improved. While governance risk was reported to have an impact on compliance or business integrity, such as breaches of bribery and anti-corruption rules, only 44% of surveyed G250 companies acknowledged that governance factors pose risks to their business. By region, N100 companies in Africa, Western Europe and Asia Pacific reached the highest level of disclosures on governance risk, at 49% for each of the three regions, compared to 37% in North America and 33% in Latin America, and only 13% in the Middle East. It is clear that these levels of disclosure do not align with the materiality of these topics. To an extent, through materiality assessments, companies will be able to use their focus on key ESG issues to identify material topics so as to improve their disclosures. Only 31% of Chinese N100 companies provided disclosures on governance risk. However, the level of governance risk-related disclosures is expected to improve as companies become more focused on these factors and increase their usage of materiality assessments.

Governance risk reporting (2022)



Base: N100 companies in China that report on sustainability or ESG matters and 250 G250 companies
Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

Most companies reported on sustainable development goals (SDGs) with nearly three-quarters of G250 companies doing so. The number of Chinese G250 companies that report on SDGs increased significantly from 5% in 2017 to 47% in 2022. In terms of specific metrics, three SDGs remain the most popular for companies among the global sample: 8: Decent Work and Economic Growth; 12: Responsible Consumption and Production; and 13: Climate Action. For China's

N100 companies, 17% reported on all 17 SDGs, while 9: Industry, Innovation and Infrastructure became one of the most popular topics besides 8 and 13. While ensuring resilient and stable value and supply chains, China has adopted a strategy of giving priority to employment and strengthening the country with its usage of talent, while continuing to improve its social security system. Meanwhile, the country's strong sense of social responsibility demonstrates to the world its commitment to sustainability. As a result of all these, companies in China can look forward to a more sustainable future.

SDGs selected by China's N100 companies as the most relevant to their business (2022)

Base: 47 of China's N100 companies that reported on SDGs in related reports
Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

"It is encouraging to see that companies are actively aligning their sustainability initiatives with the SDGs. To truly deliver outcome under the relevant SDGs, it would be important for companies to evaluate holistically the impacts of social and governance issues on their businesses, develop improvement plans and monitor and communicate transparently their actions and progress with key stakeholders."

Irene Chu
Partner, ESG Advisory
KPMG China

"Materiality assessment and analysis of material topics are the cornerstones of ESG information disclosure. Therefore, it is important for companies to understand how they can make use of their resources and the corresponding inputs, activities, outputs and outcomes. We recommend that companies strengthen their assessment and reporting processes to ensure that policies are implemented and enforced consistently, starting with their responses and management strategies for the material risks and opportunities of the relevant issues."

Johnson Li
Partner, Governance, Risk and Compliance
KPMG China

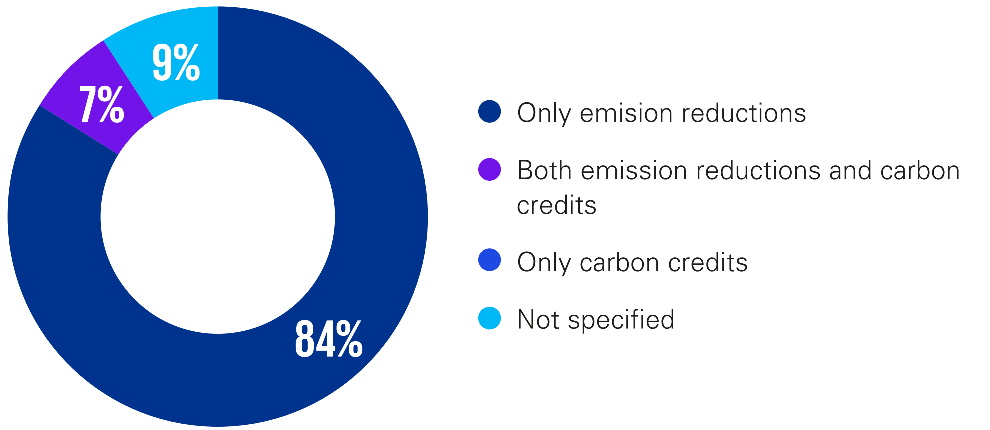
Focus area 2: Responding positively to the "dual carbon" goals and proactively addressing climate change

The looming risk of global warming is promoting collaboration between various sectors of society to address the threats imposed by climate change, such as the need to control carbon emission volumes and the preservation of biodiversity. To improve transparency and openness in their sustainability reports, companies need to shoulder more responsibility in terms of carbon emission reductions and halting biodiversity loss. However, achieving these goals will be no easy feat. Despite significant progress made by companies in disclosing carbon reduction goals and carbon performance indicators since the establishment of the Task Force on Climate-related Financial Disclosures (TCFD), efforts in other key areas are still lacking. Take biodiversity loss for example – fewer than half of companies have recognised the risk in this area. 2022 was a crucial year for nature and biodiversity preservation, as the international community made intensified efforts to halt biodiversity loss. On a positive note, most sectors are now understanding the risk of biodiversity loss. In the short term, improvement is expected to be made in ESG reporting under the frameworks to be launched by the TNFD and the CSRD.

In terms of climate-related disclosures, the proportion of N100 and G250 companies that have provided climate-related disclosures in 2022 stood at 71% and 80% respectively, an increase from 2020 of 6% and 4% respectively. Still greater efforts are needed to achieve further improvement in this area. Companies are gaining awareness of the importance of their contributions to achieve global, regional, and national climate goals. However, around 20% of G250 companies have not disclosed any connection between their own and external reference goals, while most companies have made such a connection by referencing external carbon reduction goals set by governments and other institutions.

By region, the disclosure rates of carbon-related indicators are relatively higher in Europe (80%), the Americas (74%), and the Asia Pacific region (62%), while companies in the Middle East and Africa have the lowest rate (54%). By country, the UK takes the lead in reporting carbon-related indicators (96%), with Japan (95%) and Germany (94%) following closely behind. Driven by the "dual carbon" goals, the number of China's N100 companies that have set up carbon emission reduction goals have increased by 10 percentage points since 2020, demonstrating potential for further improvement.

How do the China's N100 companies plan to achieve their carbon emission reduction goals (2022)



Base: 45 of China's N100 companies that reported on carbon emission reduction goals
Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

In addition, the survey also indicates that most companies have recognised the importance of achieving their carbon goals through emission reduction measures rather than relying on carbon credits. China is actively implementing its "dual carbon" goals as it moves to accelerate low-carbon transformation in companies. Proactive measures have also been taken to improve China's carbon accounting and market trading system, so as to raise the carbon sink capacity of its ecosystems and facilitate its active involvement in the global response to climate change. Companies need to show determination and work together with external parties to forge the way ahead.

Building on the SASB standards, TCFD recommendations, Climate Disclosure Standards Board guidance and Integrated Reporting Framework, the formation of the ISSB is expected to harmonise the reporting landscape and streamline sustainability disclosures. Nonetheless, companies should see beyond the standard reporting and make use of the sustainability information to evaluate the climate-related risks and opportunities that are material to the companies and determine whether there are strategies in place to mitigate risks and drive long-term enterprise value.

Eddie Ng
Partner, ESG Reporting and Assurance
KPMG China

ESG strategy is at the core of sustainable development. Companies need to integrate ESG into their strategy and operations, formulate clear development goals, implementation plans and performance indicators, establish effective reporting strategies to disclose the company's ESG practices, as well as adapt to the ever-changing regulatory environment and information requirements from investors. In the uncertain business environment of the past few years, we can see that companies with outstanding ESG performance have shown greater resilience and gained more capital support from the market.

Daisy Shen
Partner, Head of Climate Change and Sustainability
KPMG China

Focus area 3: Promoting ESG credibility and exploring win-win opportunities through new regulations

Over the last three years, the pandemic has amplified the impact of global turbulence. In light of evolving social conditions, regulators and non-profit standard setters across the globe have taken significant action in terms of non-financial disclosures, such as the GRI Standards that were updated in October 2021, and the Draft Exposure, released by the ISSB in March 2022. These demonstrate a gradual tightening of global cooperation in ESG practice.

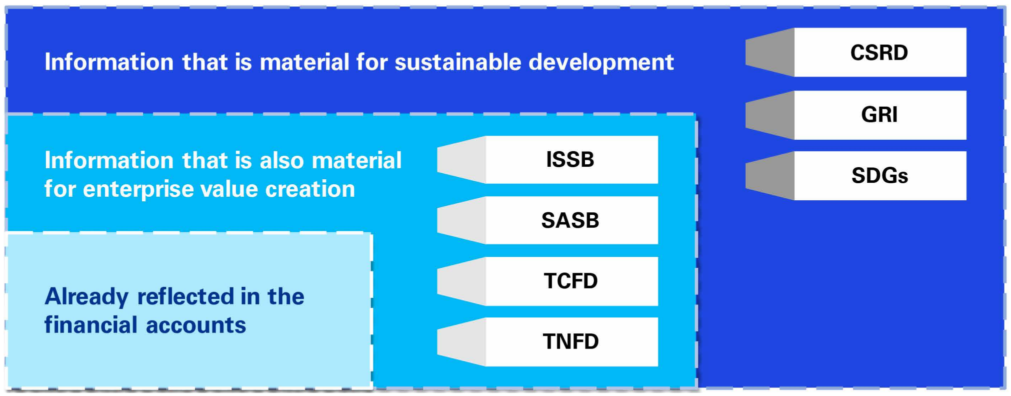
In June 2022, the Guidance for Enterprise ESG Disclosure (T/CERDS 2-2022), China's first voluntary guidance on ESG information disclosures for companies, came into force, laying a solid foundation for future cooperation and improvement. KPMG expects that Chinese companies newly added to the G250 list will catch up with their peers in terms of ESG-related disclosures in the coming years.

The independent external assurance on the information contained in a company's sustainability report helps enhance the credibility of such reports. 2020 was a critical milestone, during which nearly half of N100 companies made their first investments in independent third-party assurance. 2022 has seen a decline in terms of the rate of assurance requested by N100 companies, but we expect a rebound in the next few years due to a further tightening of regulations. Since the decline in 2020, the ESG assurance rate of G250 companies has rebounded slightly, with the assurance rate of G250 companies (including those newly included Chinese companies) standing at 63%, up from 62% in 2020.

Over the past two years, the ESG assurance rate of China's N100 companies has doubled, from 15 companies in 2020 to **30 in 2022**

The assurance level represents the maturity of ESG assurance services in a region, though the level may vary among regions. Accordingly, though China may have made satisfying progress so far, more companies are encouraged to seek ESG assurance so as to further improve the transparency and openness of their reports.

Corporate sustainability disclosure standards and application



Note: Please see the glossary on page 14 for details of abbreviations.
Source: KPMG analysis

Through ESG reporting, companies are able to demonstrate their ESG strategies, visions and commitments while presenting their performance in this area to the wider society. It is of great importance to the implementation and promotion of an organisation's ESG strategy. Moving forward, the unification of global ESG reporting standards will enable companies to effectively promote their ESG strategies and practices and better reflect their enterprise values through their ESG reports and disclosures.

Cherry Hu
Partner, Environmental, Social and Governance
KPMG China

In the future, China needs to keep pace with the global consistency of reporting systems and continuously improve its disclosure requirements, establish disclosure standards that are in line with international standards and align with China's economic development, and promote high-quality corporate development through a good ESG disclosure mechanism. Independent assurance on ESG disclosures can help build market participants' confidence in the important decisions made by management and investors related to the company, as well as help companies improve their internal data collection, review and control processes.

Patrick Chu
Partner, Head of ESG Reporting and Assurance
KPMG China

Conclusion and recommendations

The world is undergoing profound changes unseen over the last century as the impact of the COVID-19 pandemic lingers on. China is facing multifarious challenges and its enterprises must make transformative breakthroughs to meet these challenges. China has an inspiring and ambitious plan for green development, and is determined to follow global trends. Its actions as a leading country in the world will certainly come into focus.

At the same time, boards of directors are urged to contribute their various perspectives and initiate conversations to broaden the corporate horizon under new ESG-related requirements. This is to ensure that climate and ESG factors are adequately considered to the furthest extent possible in the making of top-down strategic decisions. KPMG's survey report highlights the following sustainability reporting corporate practices:

- Understanding stakeholder expectations
- Incorporating materiality assessments into reporting
- Aligning reporting to mandatory or voluntary frameworks
- Investing in quality non-financial data management
- Understanding the impact of climate change and social issues on business

As an entity with significant influence, KPMG China has released its own ESG report – Our Impact Plan – in which it sets out its commitments across the four key pillars of Planet, People, Prosperity and Governance. The firm is committed to ESG development initiatives, from encouraging its people to become facilitators of active change, to providing high quality ESG services to clients.

Outlook

Going forward, the pressure on businesses to report on non-financial metrics is only expected to grow as regulations evolve. Such challenges can in fact be hidden opportunities and possibilities. The global baseline of sustainability disclosures is coming into reality as ISSB moves towards finalising its standards. For China's enterprises, these new regulations will require a change of mindset, to be inclusive, to push the boundaries and to make flexible plans according to their own stage of development. Companies should take immediate action to face these ever-changing challenges to ensure they play their part in the transition towards a more sustainable future.

Glossary

CSRD: Corporate Sustainability Reporting Directive

ESG: Environmental, social and governance

G250: World's 250 largest companies by revenue based on the 2021 Fortune 500 ranking

GRI: Global Reporting Initiative

ISSB: International Sustainability Standards Board

N100: Worldwide sample of the top 100 companies by revenue in 58 countries, territories and jurisdictions

SASB: Sustainability Accounting Standards Board

SDGs: Sustainability development goals

TCFD: Task Force on Climate-related Financial Disclosures

TNFD: Taskforce on Nature-related Financial Disclosures

About KPMG China

KPMG China has offices located in 31 cities with around 15,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Dalian, Dongguan, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Hefei, Jinan, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Xiamen, Xi'an, Zhengzhou, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

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In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multi-disciplinary services (including audit, tax and advisory) by some of China's most prestigious companies.

Contact us

Wei Lin
Partner, Head of Environmental, Social and Governance
KPMG China
T: +86 (21) 2212 3508
E: wei.lin@kpmg.com

Patrick Chu
Partner, Head of ESG Reporting and Assurance
KPMG China
T: +86 (10) 8508 5705
E: patrick.chu@kpmg.com

Pat Woo
Partner, Head of Environmental, Social and Governance,
Hong Kong SAR
KPMG China
T: +852 3927 5674
E: pat.woo@kpmg.com

Irene Chu
Partner, ESG Advisory
KPMG China
T: +852 2978 8151
E: irene.chu@kpmg.com

kpmg.com/cn/socialmedia

For a list of KPMG China offices, please scan the QR code or visit our website:
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