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企业可持续发展报告资源中心
China Sustainability Reporting Resource Center

The China Sustainability Reporting Resource Center is targeted at building an open platform for knowledge-sharing and exchange to promote the development of sustainability reporting in China.

The platform provides its users with the ability to search and download corporate sustainability reports. Visitors also receive access to national and internatinal news about sustainability reporting.

AN EXPLORATION OF
NON-FINANCIAL DISCLOSURE

2009

A Journey to Discover Values

· A Study of Sustainability Reporting in China ·

SynTao

Research Institute

SynTao is a management consultancy that focuses on promoting corporate social responsibility (CSR) and socially responsible investment (SRI) in China. We have offices in Beijing and Washington DC. On the basis of our global perspective, local expert team, and extensive partnership network, we provide CSR and SRI related consulting, training and research services to assist our clients to enhance their competitiveness and strategy. SynTao is operating four CSR related websites:

SynTao: http://www.syntao.com
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AN EXPLORATION OF NON-FINANCIAL DISCLOSURE

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A Study of Sustainability Reporting in China

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Please note that the statements in this report do not represent the position of Oxfam HK or the other supporting organizations.

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Foreword

The completion of the report "A Journey to Discover Values 2009" marks the third anniversary of our research on sustainability reporting in China. Over the last three years, our team carried out in-depth research on developments in the field of non-financial disclosure. We acquired a clear view of progress in reporting practices by analyzing newly released corporate reports and exploring future trends. We have conducted three consecutive studies - analyzing sustainability reports for the years 2007, 2008 and 2009 - leading to new insights that support China's mission to improve corporate transparency. The first two reports gained the interest of a wide audience and the report of this year will hopefully continue to stimulate discussion on corporate disclosure, propelling the development of sustainability reporting in China.

Sustainability reporting in China has made remarkable progress in 2009. The writing process became more standardized and also society became more aware of the importance of corporate non-financial disclosure. As the financial crisis threatened the viability and profitability of businesses and the internalization of corporate citizenship was tested by the occurrence of several natural disasters, Chinese companies became increasingly concerned about their reporting skills. Therefore, the essential question for companies in 2009 was not whether or how to report, but how to improve the quality of reporting.

We, as researchers, have pondered the same question: taking into account the increasingly complex markets and the growing influence of stakeholders, how can we recognize a high-quality sustainability report? How can reporting enhance internal management and external communications? How can reporting accelerate corporate sustainability and responsible management? To enable an in-depth study, we created the "SynTao Assessment for Sustainability Reporting" to objectively investigate and interpret sustainability reports. Following our assessment, we concluded that the impact of sustainability reports mainly depends on the quality of the descriptions and data presented in the report. Only when reports provide significant information, sensible analysis and convincing logic, they can serve as a bridge between companies and stakeholders, between companies and investors, and between historical achievements and future developments.

Our research identifies the tendency that "when society pays more attention to sustainability issues, the public requires companies to become more transparent", a development leading to an increased flow of information between companies and stakeholders, allowing investors to form a more accurate judgment of company values. For the study in 2009, we extended our scope of research and conducted a preliminary analysis on the level of non-financial disclosure in China by studying the values "information completeness" and "information quality" in the reports.

We are very grateful for Oxfam Hong Kong's commitment to the three "Journey to Discover Values" studies on sustainability reporting in China and we thank them for their continuous funding of this research project. We also would like to thank the organizations that provided us with the necessary technical support. In addition, when conducting interviews to seek expert opinion, we highly benefited from the comments and views received from all fellow researchers and other professionals and we would like to thank everyone for their time and input. We offer our apologies for not being able to include all expert opinions in the present report as a result of limited space and time.

Abstract

In 2009, policy makers, regulators and society were all important drivers for companies to gain a deeper understanding of corporate social responsibility, a development greatly accelerating the development of sustainability reporting in China. In the year 2009 a new record of 533 sustainability reports[2] were published.

Of all companies releasing sustainability reports in China for the year 2009, the state-owned enterprises account for almost 70% of the publications. In total, 78% of all the reports were published by listed companies (either state-owned or private), which can be attributed to the encouraging attitude of stock exchanges - Shanghai Stock Exchange and the Shenzhen Stock Exchange - requiring listed companies to publish information on sustainability performance. In addition, most reports are released by companies active in the following industry sectors: manufacturing, smelting, finance, electricity, real estate, textile and apparel.

To encourage the release of high-quality sustainability reports by supporting the standardization of corporate disclosure and transparency, we created the "SynTao Assessment for Sustainability Reporting". The SynTao Assessment analyzes reports on the following two values: 1) information completeness and 2) information quality. The assessment of 53 sustainability reports released in the year 2009 shows that in general, a higher performance was noted for the value information completeness than for the value information quality, which suggests that companies have obtained a relatively accurate understanding of the wide scope of topics that are covered by the sustainability concept. Nevertheless, companies urgently need to improve the quality of content that is currently presented in the reports. The detailed analysis shows that with respect to information disclosed within the categories strategy, management and performance, disclosure for strategy received the highest scores, subsequently followed by management and performance. Information disclosure discussing company performance achieved particularly low scores, mostly because of poor-quality quantitative information, such as incomplete data sets and data sets that could not be compared to disclosure in previous years or to the performance of other companies.

SynTao also conducted a survey on stakeholder communications. The questionnaire showed that during the process of sustainability report writing most companies reserve time to consult stakeholders on the report and allow time for feedback. However, we found that only a few companies take time to respond to stakeholder concerns. Also following the release of a sustainability report, not many companies report on the continuation of stakeholder communications. Therefore, we suggest that Chinese companies implement communication management schemes that encourage ongoing stakeholder dialogue, not only during the writing of a report but also following the release of the document.

In our 2009 report, we also explored the concept of non-financial disclosure. Non-financial disclosure refers to the public release of corporate information beyond financial accounting, e.g. disclosure about investor rights, operations, management, and governance. Currently, there is a growing recognition of the importance of non-financial disclosure in the overall assessment of a company's risk profile, enabling investors and stakeholders to accurately evaluate a company's values and hence, make more sound (investment) assessments. The quality of non-financial disclosure illustrates a company's understanding of its accountability to investors and other stakeholders. Therefore, the next step for companies currently releasing sustainability reports, is to explore opportunities to adopt a fully comprehensive non-financial disclosure system.

Based on developments in sustainability reporting in China in 2009, we anticipate that the number of reports will continue to grow and that the quality of these reports will keep improving. As sustainability reports become more standardized, reporting automatically becomes a more valuable tool for social responsibility management practices by enhancing sustainability capabilities. In addition, report writing facilitates stakeholder communications and cooperation. Eventually, we predict that sustainability reports will develop into comprehensive non-financial disclosure schemes, becoming a solid foundation for social responsibility aimed investment in China.

2 This research studied sustainability reports released by China's companies and sustainability reports about China released by foreign companies operating in China. Corporate sustainability reports (or reports and corporate reports for short) include non-financial reports concerning corporate social responsibility of all types, such as corporate social responsibility (CSR) reports, corporate citizenship reports, corporate health, security and environment (HSE) reports, corporate environment reports and Global Compact Communication on Progress (COP) reports.

Contents

1 Sustainability Reporting Developments

1.1 Sustainability Reporting in China

In 2009, sustainability reporting boomed in China against a background of economic and social development and a widespread promotion of the corporate social responsibility (CSR) notion. While managing the impact of the global financial crisis, the Chinese government stressed the importance of business ethics and CSR for economic and social development. As a result, surviving Chinese companies achieved a more in-depth understanding of the corporate responsibilities towards society.

In a speech conducted in Cambridge, United Kingdom in February 2009, the Chinese Premier Wen Jiabao emphasized that "We should call on all companies to take up their social responsibilities. Within the body of every businessman should flow the blood of morality."

In the year 2009, the State Council of China adopted a series of measures to help companies with difficulties in operation and employment, e.g. encouraging companies to take up social responsibilities and supporting companies that retained migrant rural workers. New emission reduction targets as released by the Chinese government in November 2009 show that the development of a low-carbon economy has become a national strategy and a new issue for consideration for Chinese companies when implementing policies to act upon social responsibility. In addition, the 2009 Copenhagen Climate Conference focused on cooperation between national governments to counteract the risks of climate change.

To accelerate the spread of CSR in China, the country's economic and social development provided a sound environment for the development of sustainability reporting. Firstly, governments and regulators issued a variety of policies and guidelines to improve supervision and steer sustainability reporting. Secondly, trade associations, research institutes, non-governmental organizations (NGOs) and other civil parties encouraged and supported the writing and release of sustainability reports via Internet platforms, issuing trade guidelines and reporting handbooks.

◆ *Increasing number of sustainability policies adopted by governments*

The adoption of new sustainability policies by provincial governments played a critical role in promoting the writing and release of sustainability reports. Both central and local governments issued a series of documents to encourage sustainability report writing practices among companies.

Following the announcement of the "Guiding Opinion on Performing Social Responsibilities by Central-government Enterprises" in early 2008, the State-owned Assets Supervision and Administration Commission (SASAC) issued a number of other circulars specifically aiming at central-government enterprises (CGEs) to release sustainability reports and subject their performance to public supervision. At a working conference of SASAC on the social responsibility of CGEs held in November 2009, SASAC announced the requirement that CGEs should focus on specific areas such as "improve the social responsibility management system and clarify management responsibilities" and "establish and improve the social responsibility reporting system and strengthen information disclosure and responsibility communication".

Over the last year, local governments were another important driver of sustainability reporting as they formulated local CSR standards or established assessment systems to promote the creation of CSR management programs among companies, including the release of regular sustainability reports. For example in January 2009, the city of Shanghai formally implemented its local standards for CSR (China's first provincial CSR standard). Later, other cities in the Yangtze River Delta such as Nanjing, Hangzhou, Yiwu and Wuxi also issued local CSR standards or guidelines. Shandong and other provinces implemented several CSR pilot projects, i.e. the compilation of the "Corporate Social Responsibility Management Handbook" and appointed a number of pilot companies to put the release of sustainability reports on top of the agenda. The city of Wenzhou, home to a number of China's most developed private companies, issued the document "Corporate Social Responsibility Assessment System for Private Enterprises" and stipulated that a first group of pilot companies will release a social responsibility report in 2010.

Increasing effort to standardize sustainable reporting

With the development and standardization of China's financial market, more attention is paid to CSR management and corporate reporting. In December 2009, the China Securities Regulatory Commission (CSRC) announced in its statement "Announcement on 2009 Annual Reports of Listed Companies and Relevant Tasks" that listed companies should strengthen their sense of social responsibility, actively take up their social responsibilities and disclose annual social responsibility reports. The Shanghai and Shenzhen Stock Exchanges also issued documents requiring listed companies to disclose data on the performance of social responsibilities in 2008. Early 2009, the Shanghai Stock Exchange took further action by formulating CSR report writing guidelines for listed companies and working papers for directors of listed companies. These measures have helped to standardize the content of sustainability reports in China.

Social forces push sustainability reporting

In addition to the steering of policies and regulations, other parties such as trade associations, research institutes and non-governmental organizations supported companies via a variety of channels, including the release of research and guidelines, to fulfill CSR-related expectations and publish sustainability reports.

Reports about social responsibility released by trade associations have served especially well as guidelines and examples for companies in sustainability report writing. For example, China Banking Association issued the "Corporate Social Responsibility Guidelines for Financial Organization of China's Banking Industry" in January 2009 and the "Social Responsibility Report of China's Banking Industry" in May 2009, which thoroughly introduced the social responsibility performance of China's banking industry and stressed the importance to promote the integration of economic profits and social profits. Industry associations with respect to real-estate, automotive, medicine manufacturing, direct sales and sports appliances also issued their first reports or surveys on sustainability reporting.

Trade associations also created momentum and platform for sustainability reports at the time of publication. During the "2009 Conference of Releasing Sustainability Reports by China's Industrial Economic Trades", 19 companies active in over ten different industries, such as iron & steel, machinery, electricity and mining, jointly released their sustainability reports and promised to organize a yearly sustainability conference. Guided by the 2008 China National Textile and Apparel Council report "China Sustainability Reporting: Guidelines for Apparel and Textile Enterprises", ten textile and apparel companies also participated in a conference to highlight the release of their sustainability reports, documents that were each assessed by independent third party auditors. At the conference, the ten companies launched a three-year work plan on how to improve performance of social responsibilities in the textile and apparel industry.

In December 2009, the Corporate Social Responsibility Research Center of the Economics Department from the Chinese Academy of Social Sciences released China's first reference book about CSR information disclosure and reporting – "China CSR Reporting Guidelines", comprising a general CSR index system and 37 trade-specific supplements. The guidelines provide detailed interpretations of indexes, models and reporting formats, potentially playing a leading role in the development of corporate information disclosure.

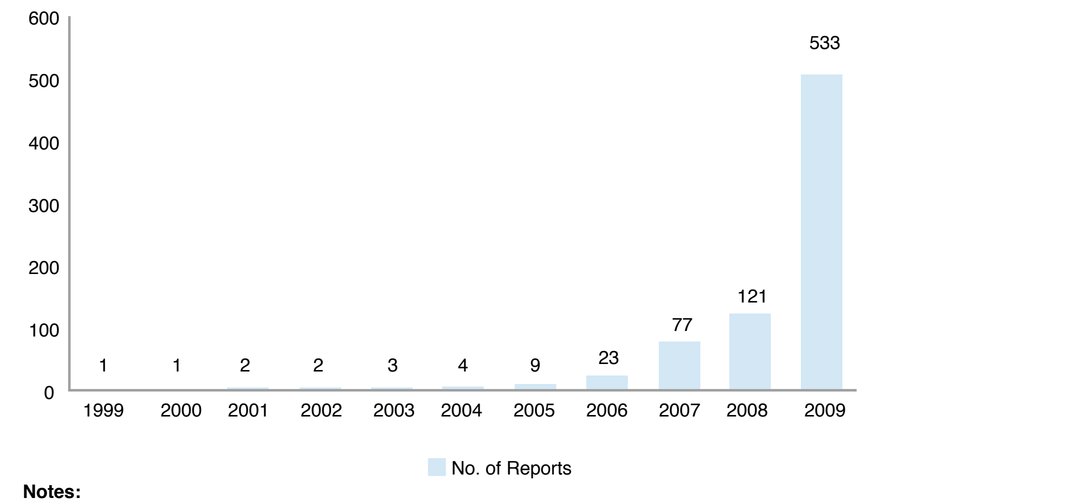
1.2 Trends in Sustainability Reporting

The number of reports is dramatically increasing

From January to December 2009, a total of 532 companies released 533 sustainability reports[3], over four times the number of published reports in 2008. Some companies, such as State Grid and China Ocean Shipping Company, released their fourth consecutive report. Many companies is releasing their first sustainability report were often also the first companies to release a sustainability report in their industry sector, as for instance in the case of the sectors: sports appliances, automotive, cable lines, retail, building and construction, human resources.

3 One enterprise released both a social responsibility report and a welfare report for the year 2009.

Figure 1: Number of Sustainability Reports Released by Companies in China (1999-2009)



Notes:

1. These statistics are based on publicly available data. The reports cited in this report can be found on the China Sustainability Reporting Center[4] website.

2. Reports released by parent companies and their subsidiaries are counted separately.

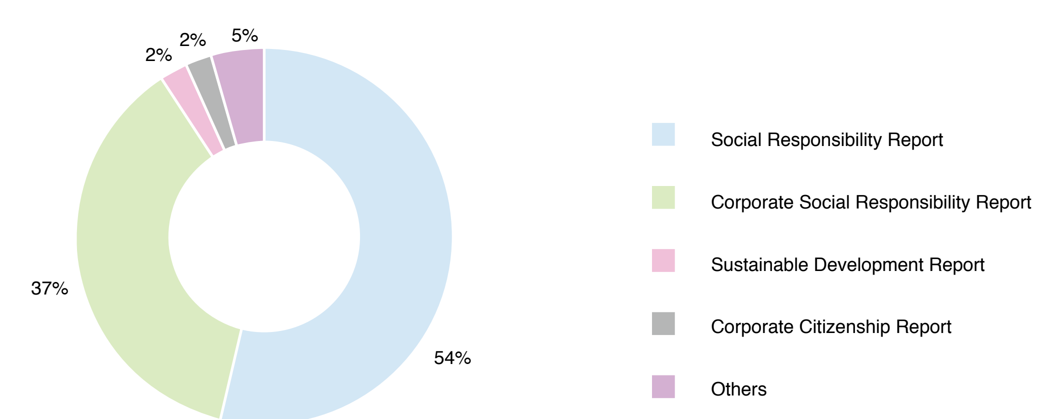
3. Reports without a clear release date are not included in this report. Therefore, the actual number of the reports released in China for 2009 might be higher than the 533 reports selected based on our research criteria.

Data source: If not otherwise specified, all information presented in this report was collected by SynTao.

Over 90% of the reports include "social responsibility" in their title.

For 2009, 54% of the selected documents are titled "Social Responsibility Report" and 37% of the reports are defined by the title "Corporate Social Responsibility Report". Only a few of the reports are titled "Sustainable Development Report" (2%) or "Corporate Citizenship Report" (2%); one or two reports are defined in their title by a specific sustainability issue such as welfare or environment, which shows that these companies' understanding of social responsibility might be limited to one particular aspect. Nevertheless, as can be seen from the results, most reports released in China aim to include a wide selection of issues such as economy, environment, society and many other aspects.

Figure 2: Sustainability Report Titles as Released by Companies in China (2009)



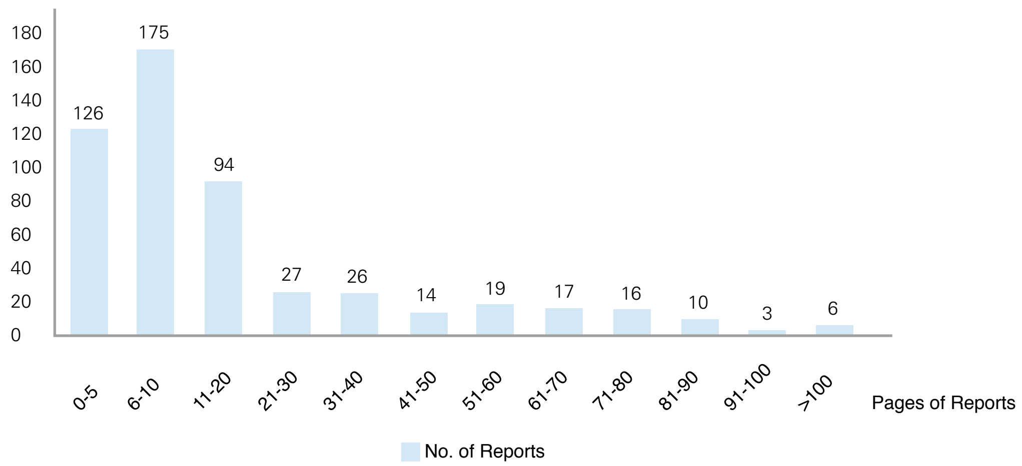
4 China Sustainability Reporting Resource Center: http://www.sustainabilityreport.cn/

Over 50% of the reports count no more than 10 pages

The average length of a sustainability report released in 2009 is 20 pages, however 56% of the reports are no longer than 10 pages.

The two longest reports are the 149-page "Sustainable Development Report 2008" released by China Ocean Shipping (Group) Company and the 143-page "Corporate Social Responsibility Report 2008" by China Construction Bank. Both reports are bilingual (Chinese and English).

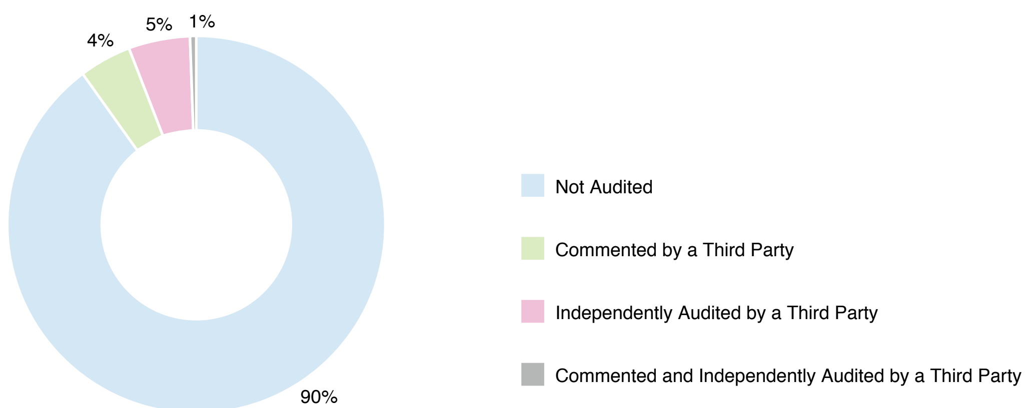
Figure 3: Length of Sustainability Reports Released by Companies in China (2009)



Most reports are not independently audited by a third party

Among the total number of reports released during the research period, only 28 reports were independently audited by a third-party organization, accounting for 5% of the total reports. 27 reports cited the comments of a third-party organization, these two groups of reports together account for approximately 10% of the total number of reports[5]. The other 90% of reports did not feature third-party comment`s (other reviews or independent audits) .

Figure 4: Audited Sustainability Reports Released by Companies in China (2009)



5 Some reports both cited the comments of a third party and were independently audited by a third party, leading to some overlaps.

A high percentage of reporting companies can be found in the manufacturing industries

Most of the reports released during the research period refer to a domestic or international standard, with 11 reports consulting two or more standards.

A total of 42 reports refer to an international standard. Among them, 38 reports refer to the "Sustainability Reporting Guidelines" by the Global Reporting Initiative (GRI), nine reports to the COP (Communication on Progress) reporting framework of the Global Compact and two reports to the AA1000 Standard [6].

Among the reports referring to domestic standards, some listed companies mention the "Environmental Information Disclosure Guidelines for Enterprises Listed on the Shanghai Stock Exchange", the "Compiling Guidelines for Reports on Enterprises Implementing Social Responsibility" or the "Social Responsibility Guidelines for Enterprises Listed on the Shenzhen Stock Exchange". Some reports refer to trade guidelines, for example, 10 textile companies specifically mention the "China Sustainability Reporting: Guidelines for Apparel and Textile Enterprises" (CSR-GATEs) .

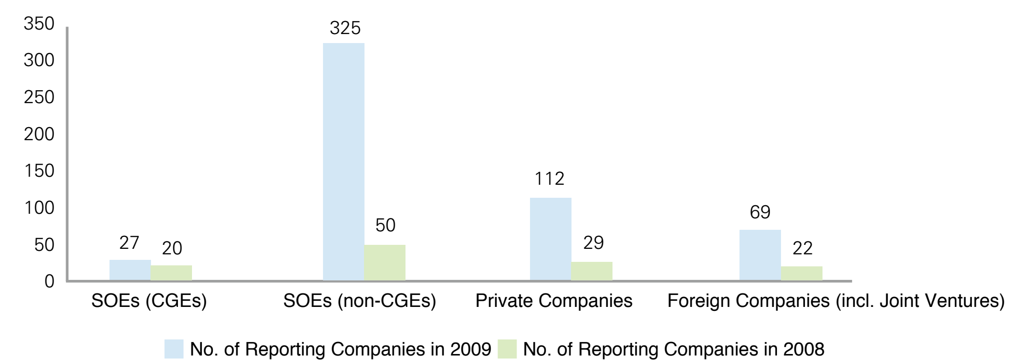
1.3 The Composition of Reporting Companies

State-owned enterprises (SOEs) release most of the sustainability reports

With respect to the different types of ownership of reporting companies, state-owned enterprises (SOEs, including CGEs[7] and non-CGEs) comprise an absolute majority, accounting for nearly 70% of all reporting companies in China. In total, 27 CGEs (excluding subsidiary enterprises) released a sustainability report over 2009, a slight rise from the 20 CGEs releasing a sustainability report over 2008. A dramatic increase was found in the number of non-CGEs releasing reports, from 50 reports last year to 325 reports this year.

The number of reporting private companies has significantly increased from 29 to 112, reflecting the impact of CSR policies and a stronger CSR awareness among the private sector. The number of reporting foreign companies (including joint ventures) has increased from 22 to 69, accounting for a smaller share of the total reports compared to last year.

Figure 5: Comparison of Reporting Companies in 2008 and 2009

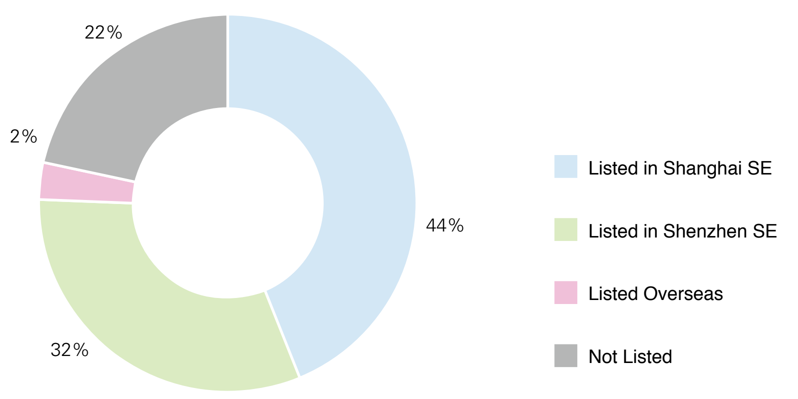


The percentage of reporting listed companies continues to increase

Among the reporting companies, listed companies account for an absolute majority. The companies listed on the Shanghai Stock Exchange (Shanghai SE) and the Shenzhen Stock Exchange (Shenzhen SE), and companies listed overseas[8], amount to over 78% of the total number of reporting companies, reflecting the influential role played by stock exchanges and securities regulators in promoting sustainability reporting.

6 Some reports are compiled referring to more than one standard, leading to overlaps in the statistics.
7 Central-government enterprises do not include their subsidiary enterprises or holding enterprises.
8 Foreign enterprises listed overseas are excluded.

Figure 6: Reporting Listed Companies (2009)

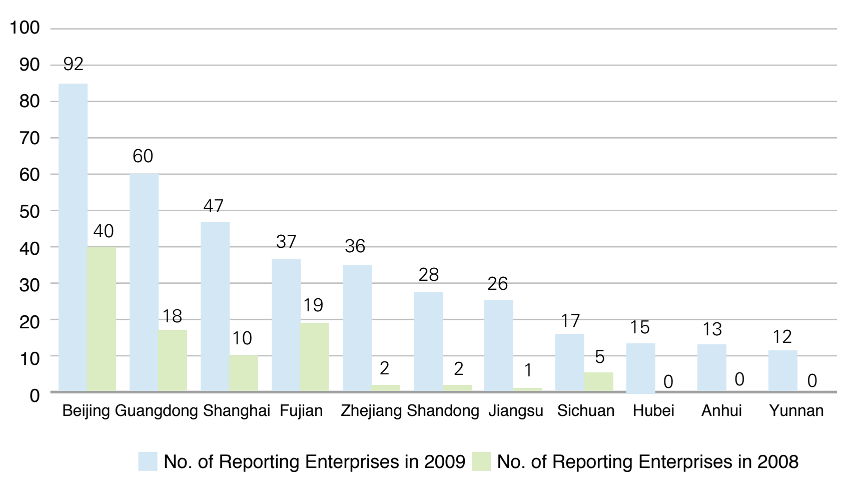


◆ *Sustainability reports were released by companies from all over the country*

As for the regional distribution of reporting companies, reporting has become a nationwide trend, although the more developed regions continue to count higher numbers of released reports. For 2009, 29 provinces, municipalities and autonomous regions are home to one of the companies that have released a report. A breakthrough compared to last year when only 10 different provincial regions were counted. Provincial regions such as Qinghai, Xinjiang, Guizhou and other areas witnessed the first release of a sustainability report in their region.

Some provincial regions saw a substantial rise in the number of reporting companies releasing a report since last year. Provincial regions such as Beijing, Guangdong, Shanghai, Zhejiang and Fujian have retained their leadership positions while Shandong and Jiangsu have made a breakthrough increase. This development can be attributed to active measures implemented by local governments.

Figure 7: Regional Distribution of Reporting Companies (2008-2009)

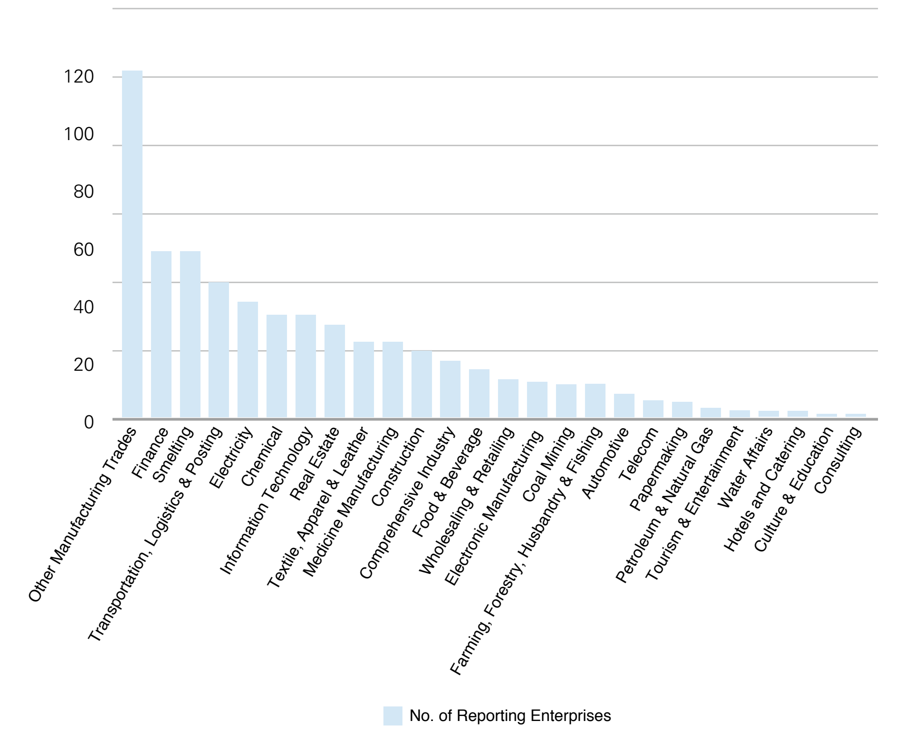


Note: The figure only displays the provinces comprising more than 10 reporting companies.

◆ *A high percentage of reporting companies can be found in the manufacturing industries*

As the industrial distribution of reporting companies is concerned, the majority of the reports come from the manufacturing industries, including textile and apparel, medicines, automotive, papermaking and other manufacturing trades[9]. Other high-ranking industries include smelting, finance, electricity, transportation and logistics, real-estate, information technology and chemicals ranking from high to low, generally resembling the rank of previous years. In particular, textile companies released a significantly higher number of reports perhaps due to promotion efforts by the textile trade association. Another 18 reporting companies are large-scale conglomerates covering a variety of industry sectors.

Figure 8: Industry Sectors of Reporting Companies (2009)



9 The industries are classified mainly referring to the "Industrial Classification for National Economic Activities" (GB/T 4754-2002) with minor modifications according to certain reports. In particular, the manufacturing industry covering a wide range of trades is further classified into six categories, i.e. textile, medicine, automobiles, papermaking, electronic manufacturing and other manufacturing trades.

2 The Relevance of Sustainability Reports for Corporations and Stakeholders

2.1 Relevance of Sustainability Reports

Sustainability reports have two types of values, i.e. internal values and external values. Internal values can help reporting companies to quantify non-financial performance, identify and analyze risks and opportunities, formulate targets and feasible plans for constant improvement, and achieve the crucial goal of cost reduction, increased efficiency and enhanced risk resistant capability and soft power management. External values can facilitate communications between a company and stakeholders, uplift brand value, win the support of consumers and investors, and achieve the ultimate goal of increasing revenues and creating more intangible assets.

Since 2007, SynTao conducted three consecutive surveys about the impact of sustainability reports on reporting companies. The results show that sustainability reporting offers companies a chance to structurally manage stakeholder communications. Companies have said to become more aware of stakeholder concerns during the process of sustainability report writing. According to our survey for the year 2009 (Footnote 9), 90% of the companies that we interviewed stated that they initiated contacts with stakeholders while in the process of sustainability report writing. Stakeholder communications as described by the companies aim at a wide range of different interest groups and touch upon a wide range of issues connected to sustainability topics.

Noteworthy, most companies found it hard to clearly describe the impact of sustainability reporting on their business operations, although, they all admitted that a sustainability report did have a certain influence. The companies' responses can be summarized as follows: internally, the writing and release of sustainability reports increases mutual understanding between employees and management and enhances employees' loyalty; externally, sustainability reports help to enhance a company's image and improve stakeholders' understanding of the company's social responsibility performance. Other types of impact were seldom mentioned. One sixth of the interviewees stated that they did not have a clear idea about the impact of a sustainability report on companies.

The development of China's sustainability reporting over the last few years makes clear that drivers for reporting mainly come from external factors such as government policies, regulatory requirements and trade associations. Most companies, when starting to report, do not understand or know how to plan report writing, which renders the reports more into a public relation tool.

Box 1: Impacts of the Reports

2007 Expert Interview	2008 Expert Interview	2008 Telephone Interview	2009 Telephone Interview
Enhance Corporate Image	Enhance Corporate Image	Facilitate Communication with External Parties	Facilitate Communication with External Parties
Facilitate Communication with External Parties	Facilitate Communication with External Parties	Enhance Corporate Image	Enhance Corporate Image
Stimulate the Company to Act on Social Responsibility	Stimulate the Company to act on Social Responsibility	Attract Talented Employees	Increase Relationship with Stakeholders
Attract Investments	Enhance Risk Management Capabilities	Improve Management Performance	*Not included in the interview*
Enhance Risk Management Capabilities	Improve Management Performance	Attract Investments	Strengthen Corporate Cohesion
Improve Management Performance	Attract Investments	Enhance Risk Management Capabilities	Help the company to modify development directions
Attract Talented Employees	Attract Talented Employees	Promote Innovations	Increase Investor Understanding of Company
Promote Innovations	Promote Innovations	Stimulate the Company to Perform Social Responsibilities	

Data source: "A Journey to Discover Values" studies (2007-2008-2009)

2.2 Sustainability Report Readers

The 2008 global reader survey of the Global Reporting Initiative (GRI) classified the users of sustainability reports into three categories, according to their characteristics and concerns. The first category is composed of researchers, consultants and analysts. This group uses sustainability reports for analysis, training, research and/or investment decision-making. The second category consists of commercial entities, that collect relevant information so as to identify and track the practices and benefits of leading enterprises. This group also uses the reports to conduct comparative analysis of corporate performance or to look for potential partners. The majority of the third category comprises charity organizations, supplemented by certain shareholders and consumers. This group uses the reports to initiate talks, establish partnerships or launch social activities (to protest or oppose against poorly performing companies).

The readers of sustainability reports in China are found to possess different characteristics from the results in the GRI survey. In the first place, it turned out rather difficult to create a clear picture of report readers as the sustainability reports appear to be used to a limited extent. Except for some research and consulting practitioners who closely monitor the release of each sustainability report, relatively little attention seems to be paid to these types of corporate publications. Also, save for a few research institutes focusing on social responsibility, many research organizations appear to make seldom use of the sustainability reports. Generally speaking, especially commercial entities appear to pay not much attention to sustainability reporting. However, the increasing number of companies releasing sustainability reports has triggered some competition among the companies, enhancing the quality of reports as well as the performance of corporate social responsibility activities. Charity organizations and other users appear to pay not much attention to sustainability reports, which can be attributed to two reasons. Firstly, the format of the reports has become rigid and the content of the reports lacks innovation. Most importantly however, many reports lack to comment on less positive consequences of (for instance, with respect to the environment), and fail to provide information of interest to charity or social organizations and do not express the enterprise well. Therefore, readers from this third research category often have trouble finding information in the reports that is of their concern, and as a result they seem to have become less interested in the publication of these types of documents.

However, it is encouraging to notice that a handful of financial, investment, commercial and charity organizations tap into the potential value of sustainability reports. For example, the Shanghai Stock Exchange encourages listed companies to disclose social contribution per share[10] in the sustainability report. The Exchange compiles its Social Responsibility Index[11] based on this type of information. Also, China's first social responsibility index fund, CCB SSE Exchange Traded Fund (ETF), has recently been approved. A number of awards for sustainability reporting organized in recent years have also helped to attract more attention for the release of sustainability reports, e.g. the Golden Bee Award for Outstanding CSR Reports organized by China WTO Tribune and the Award for Social Responsibility Reports of A-share Listed Companies 2009 jointly organized by Running & Loving Consulting for Common Welfare (RLCCW), Det Norske Veritas (DNV) and the China Social Entrepreneur Foundation (YouChange).

Box 2: NGOs and Sustainability Reporting[12]

◆ **NGO engagement during the process of sustainability report writing**

Only a few of the NGOs performing sustainability reporting research are substantially engaged in the process of corporate sustainability report writing. Most NGOs have not been closely involved in this process yet.

"Companies have never consulted us when they were in the process of writing a sustainability report. A few companies have sent us finalized reports via email and asked for feedback. However, some of these reports appear to be some kind of formality as the content is often very predictable. Companies should seek the opinion of stakeholders earlier in the report writing process, consulting us on questions such as 'what topics to include in a report' and 'how to improve the quality of a report'."

10 In May 2008, in the "Notice on Strengthening Accountability of Listed Companies" the Shanghai Stock Exchange used the term "social contribution per share" for the first time, which is defined as the increased value per share created by a company for society, calculated on the basis of basis EPS created for shareholders, plus taxes created for the state, salaries paid to employees, loan interests paid to banks and other creditors, value created for other stakeholders such as external donations, minus social costs such as those inflicted by environmental pollution, so as to help the public better understand the real value created by the company for its shareholders, employees, clients, creditors, communities and the whole of society.

11 This index includes a sample of 100 Shanghai stocks representing high-quality social responsibility performance, with June 30, 2009 as its base date and 1000 as its base point.

12 To understand how NGOs view sustainability reports and communicate with companies, we conducted a number of interviews with NGO-representatives.

What do NGOs think of sustainability reporting

The NGO-representatives who we interviewed said that they are not paying much attention to domestic sustainability reports for the following reasons: at present, companies only use sustainability reports as a public relation tool; they attach more importance to form than content; the reports only cover the companies' achievements and positive information, while potential less positive issues are not being discussed; many reports dedicate an unbalanced number of pages to the companies' charity activities; generally speaking, there is little coverage on sustainability objectives, risks and reflection.

"Some companies fail to disclose information on more environmental problematic events, such as pollution and leakages. Reports significantly increase in credibility if they would disclose information on these types of issues and discuss the progress made on tackling these problems."

What do NGOs expect from sustainability reporting

Despite their dissatisfaction with the quality of the current sustainability reports, most NGOs are positive about the practice of sustainability reporting in general and have high hopes for the future.

"Generally speaking, we hope companies can forge ahead with reporting. Ideally, they should try to be more open-minded, open to comments and feedback from the public. For example, visitors on corporate websites should have the opportunity to provide feedback online."

"The companies should adopt a more open approach during the process of report writing, not only appreciating engagement with experts but also with the public and NGOs, since the expert view may be limited."

Survey: Interviewing Companies and Stakeholders

To improve our understanding of corporate expectations and difficulties relating to stakeholder engagement during the process of sustainability report writing, we carried out telephone interviews with 60 large- and medium-sized companies that have ever released sustainability reports in the past. These companies cover 13 different types of industries and include three types of ownership [13], i.e. state-owned companies, private companies and foreign companies.

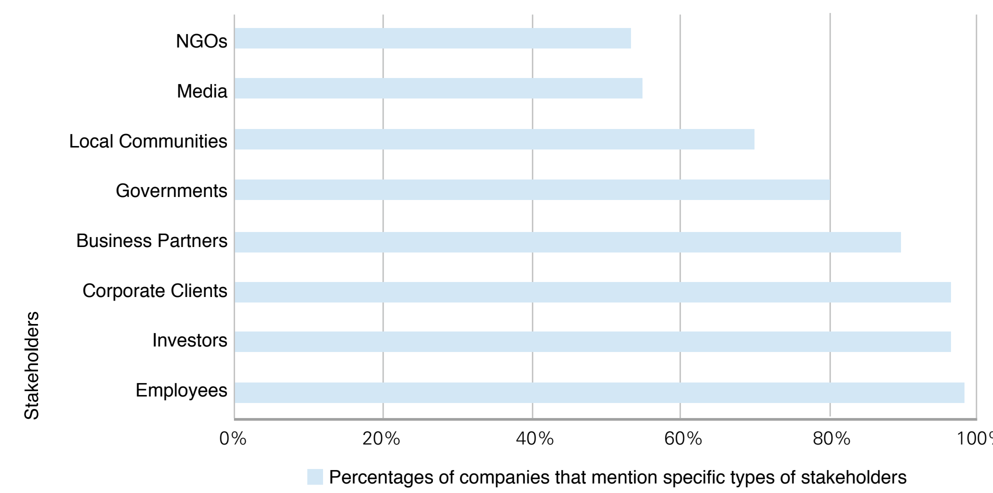
Types of stakeholders identified by companies

Among the 60 companies that we interviewed, over 96% identified employees, clients and investors as their most important stakeholders. Compared to our survey of last year, employees enjoyed a higher rank of importance, reportedly not only because employee accountability is one of the most fundamental corporate responsibilities but also because employees are the executers of companies' sustainability strategies. Also this year, investors, were more frequently mentioned as important stakeholders than last year. In addition to employees, clients and investors, business partners, governments and local communities were also mentioned as important stakeholders. NGOs and media were the least mentioned of all stakeholders, similar to the result of last year. Roughly only half of the companies recognized NGOs and media as important stakeholders (please see Figure 9), reflecting the current limited impact of NGOs and media on China's corporate sustainability strategies.

The survey for the year 2009 shows great differences from the findings of last year, in 2008, the interviews with 160 enterprises listed the following groups as most important stakeholders: governments, corporate clients and local communities. The difference in result between the two surveys [14] reflects that while the companies' understanding of stakeholders is increasing, most of them have not yet clearly identified those stakeholders most important to the companies' operations.

13 The interviews are mainly composed of representatives of the Top 100 Chinese Enterprises that released sustainability reports, supplemented by eight representatives from foreign enterprises that released sustainability reports so as to fully cover the three different types of company ownership in China.
14 The questionnaires used for the two surveys are slightly different but the difference does not affect the findings of enterprises and stakeholders.

Figure 9: Relevance of Stakeholder Group according to Companies



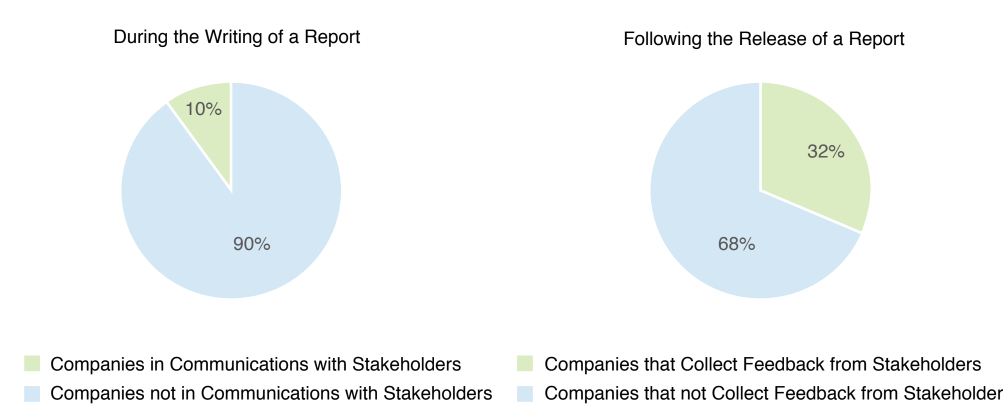
Stakeholder communications

In the process of sustainability report writing, 90% of the interviewed companies said to be in communications with stakeholders. Most companies explained that when writing the report, they would initiate communications with employees, clients and investors. Fewer companies stated to be in communications with government departments, shareholders, business partners, suppliers, local communities, media and NGOs. Only one or two companies said to be in communications with contractors, vulnerable groups and/or banks.

Following the release of a sustainability report, only 30% of the companies said that they collected feedback from stakeholders, mainly governments and investors. This outcome reflects that most companies fail to initiate meaningful long-term contact with stakeholders. More importantly, the reports' actual functions were limited to a small extent, far more to show it maximum value.

As for the methods of stakeholder communications, the interviewed companies mainly focused on informal dialogues, supplemented by interviews, seminars and conferences. Despite this variety, most companies have not implemented a complete stakeholder communications cycle that structures an ongoing scheme of providing information and receiving feedback.

Figure 10: Stakeholder Communications Management

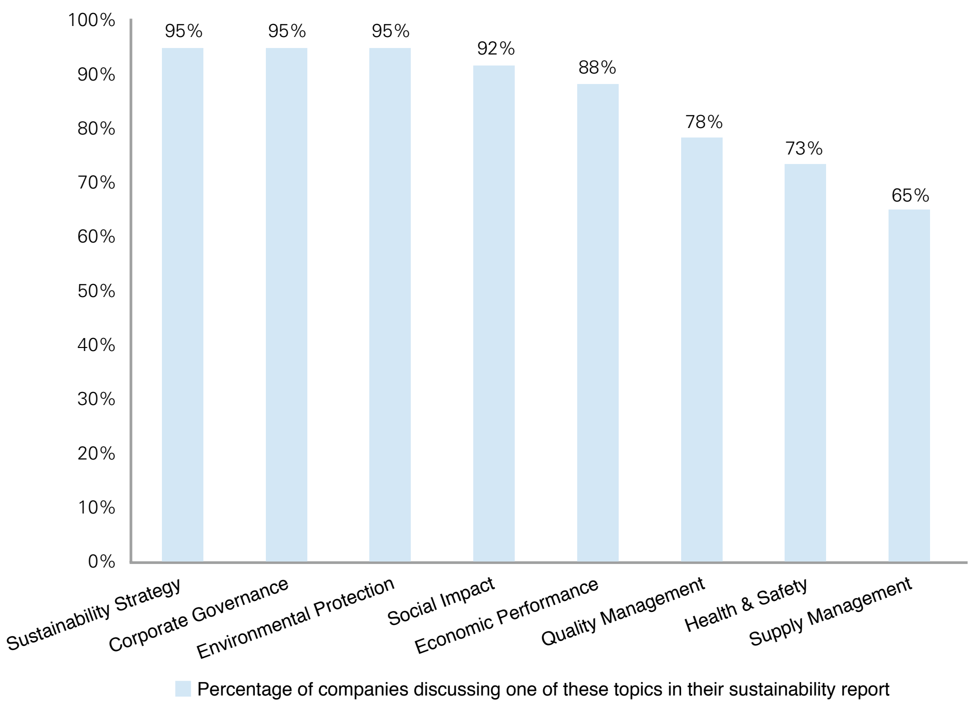


Stakeholder communications: discussion topics

A majority of companies cover a wide range of sustainability issues in their communications, leaving the impression that most companies have a clear picture of their stakeholders and aim to relate to these parties in their corporate communications.

As can be seen in Figure 11, over 70% of the companies are in communications with stakeholders about topics such as strategy, governance, health and safety. Communications between companies and stakeholders touched upon the performance of the companies with respect to external social responsibilities and internal operations. In comparison, the topic of supply management received much less attention, suggesting that not many companies have implemented corporate sustainability strategies in the business agreements with other businesses and/or suppliers.

Figure 11: Topics Covered by Stakeholder Communications



Stakeholder communications: hurdles

When asked whether companies had encountered any communication obstacles in the process of stakeholder engagement, most companies were not able to identify any clear problems. The examples given by some companies are the following: companies and stakeholders can be in disagreement on a certain topic and cannot reach a consensus; stakeholder groups being in disagreement among each other, e.g. shareholders, clients and suppliers defending different interests leaving the company no other option than to balance their demands; companies not being able to identify the appropriate stakeholders, e.g. having no accurate knowledge of for instance environmental NGOs, and as a result receiving less relevant feedback on the sustainability report.

Summary

The 2009 survey shows that the companies in the research sample recognize the existence of stakeholders and their importance with respect to corporate sustainability reports. Most interviewed companies emphasize the importance of stakeholder communications and said that in the process of writing sustainability reports they wish to consult stakeholders and collect their views and suggestions on corporate sustainability. As such, corporate communications is an extensive exercise and covers all issues regarding company operations and responsibility performance. Nevertheless, some problems were also found: the companies did not have a clearly defined idea of the differences on stakeholder groups; there is no established mechanism for stakeholder communications; only a few companies respond to stakeholder concerns; little communication is initiated with stakeholders following the release of a sustainability report.

Moreover, content analysis of sustainability reports shows that although many companies clearly defined their stakeholders, only a few reports provided explanations on how stakeholders are selected and the mechanisms and channels used for stakeholder communications. Box 4 offers some tips for companies to improve stakeholder management.

Box 3: Coca Cola's sustainability reporting and stakeholder communications

Following the release of Coca Cola's "Corporate Responsibility Report 2006", the company immediately sent the document to employees, business partners, government officials, researchers and NGO representatives concerned about environment protection, labors rights, human rights, etc. We invited stakeholders for feedback meetings to increase our understanding of: (1) how to improve the quality of our sustainability reports; and (2) how to improve our performance as a corporate citizen. We were very delighted with the positive comments from stakeholders about our sustainability report and the high level of transparency that we had managed to realize, however we also received some critique as it was said that we should provide more insights on the impact of our policies and pay more attention to workplace rights and human rights. In the process of formulating our plans for the sustainability report in the year 2008, we took all feedback into full consideration.

In 2008, we cooperated with the Association Internationale des Etudiants en Sciences Economiques et Commerciales (AIESEC), who helped us to collect feedback from their student members on the draft of our sustainability report. Following the feedback round, we held a roundtable conference in June for AIESEC's members who provided us with valuable suggestions on how to increase the user-friendliness of the sustainability report.

Data source: Coca-Cola (China) Beverage Ltd.

Box 4: Reporting Back to Stakeholders

The following considerations may be helpful when devising the reporting component of your stakeholder engagement strategy:

- Consult with stakeholders regarding their reporting needs and requirements and come to an agreement on what are reasonable reporting obligations
- Request that stakeholders provide you with regular communication on their reaction to the feedback and reports provided
- Determine what information needs to be reported to which stakeholders, by what method and how frequently
- Regularly update your commitments and register and disclose progress to affected and interested parties. In particular, publicizes any material changes to commitments or implementation actions that vary from publicly disclosed documents
- Make monitoring results publicly available, especially reports of any external monitors
- Regularly report on the process of stakeholder engagement as a whole, both to those stakeholders who are directly engaged, and to other interested parties
- Translate information reported to stakeholders into other languages including local languages if necessary
- Provide feedback in summary or easy to understand formats
- Ensure summary of stakeholder consultation activity is included in the Annual Report

Data source: Stakeholder Engagement: A Road Map to Meaningful Engagement[15]

15 Stakeholder Engagement: A Road Map to Meaningful Engagement, Neil Jerry, Doughty Centre, Cranfield School of Management

3 Assessment of Sustainability Reporting in China

3.1 SynTao Assessment

Since the release of the first sustainability report in 1999, China has witnessed a significant development in reporting practices. Chinese companies have improved their reporting performance, a result of an increased emphasis on corporate communications and public disclosure of corporate information. As the number of sustainability reports - and their quality - continues to rise, some newly released reports in China have received wide acclaim and recognition.

SynTao performed an in-depth study on sustainability reporting, comprising a review of literature, an analysis of report writing guidelines and an assessment of (inter) national report writing [16]. Based on these explorations, we created the "SynTao Assessment for Sustainability Reporting" (SynTao Assessment) with the aim to provide a structure for evaluating sustainability reports in China. Hopefully, the SynTao Assessment will help to standardize corporate reporting, promote transparency and encourage the release of more high-quality sustainability reports.

The SynTao Assessment is based on in-depth literature research. All information in sustainability reports was categorized according the three components Strategy, Management and Performance [17] (See Table 1: Level 1); analyzing whether corporate data is commenting on sustainable strategy views, sustainable management practices or sustainable performance results. All components are broken down in 3 or 4 aspects - adding up to a total of 12 aspects - clearly sub-categorizing information within each component (See Table 1: Level 2). For instance, the component Strategy is divided in aspects that touch upon topics such as "vision, values & philosophy" and "stakeholder analysis" and the component Management includes aspects such as "corporate governance" and "HR-management". Eventually, each aspect leads to a number of questions distinguishing whether certain sustainability topics are being discussed in the report (80 questions in total) and whether any valuable information is disclosed by the company.

To comprehensively assess the level of corporate information evaluates the SynTao Assessment all information retrieved from the reports, based on the answers to the 80 questions, on two types of values, i.e. "completeness of information" (Score A) and "quality of information" (Score B). The number of questions that are addressed by companies in reports determines the level of "completeness" of corporate disclosure: the more answers to questions available, the higher the level of completeness in the report. The second value scrutinizes the quality of data disclosed by companies on these issues. Qualitative data is tested on the notions clarity and readability and quantitative data on the notions reliability, timeliness and comparability (See Table 2). As such, the values completeness of information (Score A) and quality of information (Score B) analyse whether information is discussed at all and whether the discussion of information is meaningful. In order to receive high scores in the SynTao Assessment, companies need to provide a high level of completeness of information and a high level of quality of information in their reports.

16 When creating the SynTao Assessment System, we used report-writing manuals or report-writing assessments such as AA1000, G3, SustainAbility, and CASS-CSR1.0 as reference material.

17 The results for the Strategy, Management and Performance components were calculated according the following ratio: 20%, 40% and 40%, respectively.

Table 1: SynTao Assessment for Sustainability Reporting

Information Categories			Information Completeness (Score A)	Information Quality (Score B)				
Level-1 Components	Level-2 Aspect	Breakdown of Questions	Qualitative & Quantitative Information	Qualitative Information		Quantitative Information		
				Clarity	Readability	Reliability	Timeliness	Comparability
Strategy	vision, values & philosophy							
	strategy making & description							
	stakeholder analysis							
	opportunity & risk analysis							
Management	corporate governance							
	HR management							
	Products & customers							
	environment management							
	social undertakings							
Performance	economic performance							
	environment performance							
	social performance							

Table 2: Explanation of Principles

Elements	Principles	Definition of Principles
Qualitative Information	Clarity	The report is well-written and the wording is clear and effective. The writing is structured and logical. The length of the report is appropriate for the range of issues that are being discussed.
	Readability	The report makes use of appropriate presentation formats, e.g. pictures and tables. The report avoids specialized terms or explains them when utilized.
Quantitative Information	Reliability	Data sources and calculation methods in the report can be verified or are explained.
	Timeliness	Reporting period clearly defined and statistics utilized in the report are as recent as possible.
	Comparability	The report allows for vertical (over time) and horizontal (across industries) analysis.

3.2 Sampling

Taking into account the large number of sustainability reports that were released over the year 2009 and the limited time that was available to us for this research, SynTao selected a final number of 53 reports for the scope of this assessment. The documents were randomly sampled from a selection of reports that comprised 20 pages or more (20 pages being the average length of all sustainability reports released for the year 2009) [18].

In our experience, short reports provide a very limited account of the company's vision and results on sustainability. Therefore, it is safe to state that due to eliminating all reports shorter than 20 pages, the quality of the report selection this year starts at a relatively high level. By analyzing the strengths and weaknesses of these reports, SynTao offers companies the opportunity to use our research as a reference when they are in the process of writing a sustainability report themselves.

18 SynTao applied the following method when selecting the sustainability report sample: From all the reports released for the year 2009, we eliminated all reports shorter than 20 pages (the average number of pages for a report released for the year 2009). Then, for each industry sector we randomly selected reports based on a ratio of 2:1, including as many industry sectors as possible. However if an indus try sector would not have a company report available of 20 pages or longer, this industry sector would be omitted from the research sample. If all the reports in one industry were shorter than the average length of 20 pages, then no report would be selected from this industry. Also, we made sure that each type of company ownership in China was represented by a report in an industry sector, if available. As such, the sample comprises 53 reports.

3.3 Assessment of Sampled Reports

Scale score

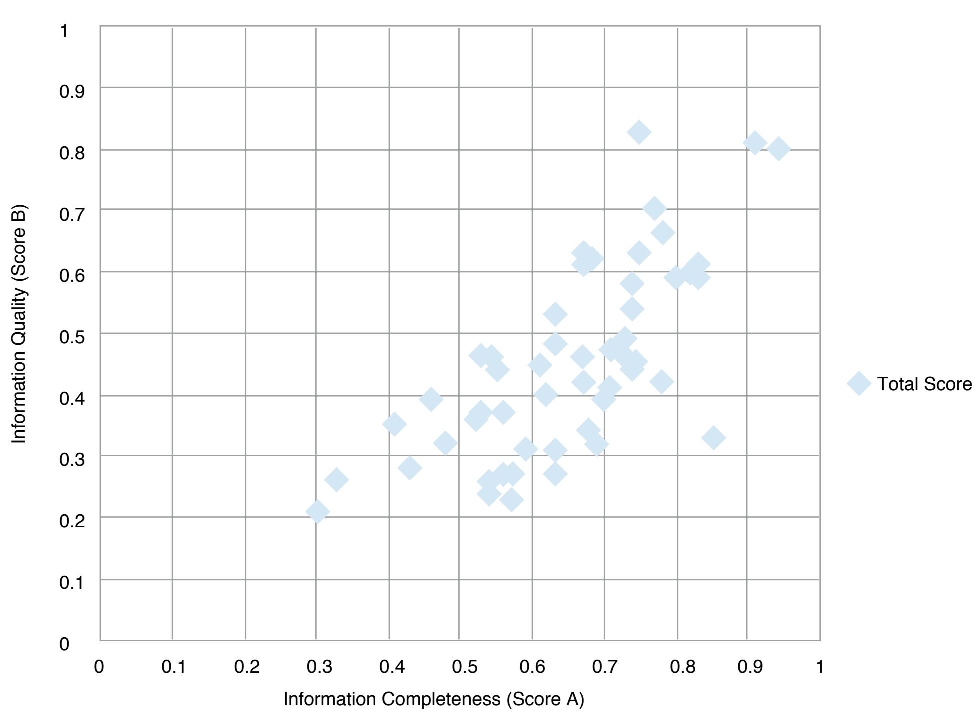
The SynTao Assessment assesses sustainability reports on two types of values, i.e. information completeness (Score A) and information quality (Score B) both on a scale of 0 - 1 (1 reflecting the highest possible score and 0 the lowest possible score).

Analysis of information completeness and Information quality

The overall results of the SynTao Assessment show that companies writing the longest sustainability reports are not necessarily the companies that write the most excellent reports. The excellence of a report does not simply depend on the amount of data disclosed, but rather on the quality of the information disclosed. Making corporate information publicly accessible is only the first step of report writing. The quality of information provided for and the readability and comparability of data is as important.

From the diagram demonstrating the relation between information completeness and information quality (Figure 12), we can see that the scores for the sustainability reports mainly cluster in the lower right corner of the figure. This means that the value information completeness received higher scores than the value information quality, i.e. that the information disclosed in the sampled reports shows a better performance with respect to completeness than quality. The statistics show that of the total number of sampled reports for the year 2009, about 89% of the reports addressed 50% of the topics described by the 80 questions in the SynTao Assessment (Score A: higher than 0.5), whereas only 28% of the reports achieved a quality score of 50% or more (Score B: higher than 0.5). In other words, although the sampled reports appear to possess a relatively accurate understanding of the scope of possible sustainability topics, the quality of the information disclosed in reports requires considerable improvement.

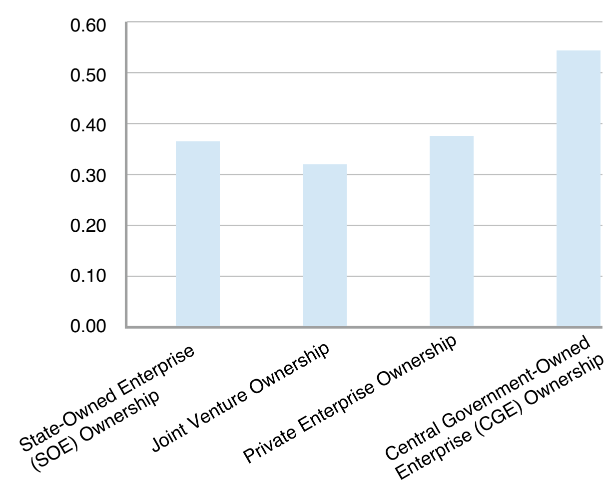
Figure 12: Relation between Information Completeness and Information Quality



Analysis of company ownership

With respect to distinctions in corporate ownership, the sustainability reports released by the Central Government-led Enterprise (CGE) type of ownership received the highest scores in the SynTao Assessment, which can be attributed to a longer experience in corporate social responsibility and report writing in comparison to the other types of company ownership (many CGEs have already started publishing yearly sustainability reports). The CGE score is closely followed by the score for the private enterprise (PE) type of ownership, which reports also show a high performance in the assessment. The joint-venture (JV) and state-owned enterprise (SOE) types of ownership show a much lower score in performance. However, the overall quality of reports does not vary too much between the different company types. This observation is similar to the findings of last year's report, "A Journey to Discover Values 2008". Also, as more attention is paid to social responsibility, efforts increase to release sustainability reports and disclose information, slowly narrowing the quality gap between company types.

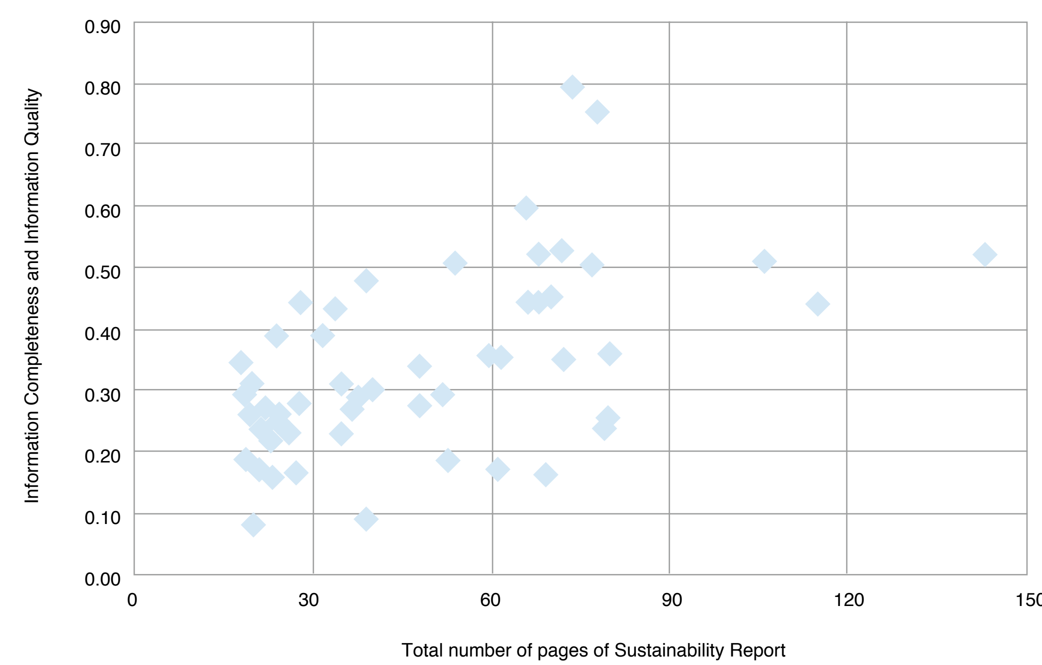
Figure 13: Scores for Company Ownership Types



Report length

In our previous sustainability study "A Journey to Discover Values 2008", we identified a clear relationship between the length of a report and its scores for information completeness and information quality. This year we come to a different conclusion as the SynTao Assessment makes use of a different report sample: the 2009 sample only includes reports comprising 20 pages or longer. The current sample shows that the quality of information does not necessarily increases with the length of a report. For example, the information completeness and information quality scores vary significantly for the reports between 60 to 90 pages.

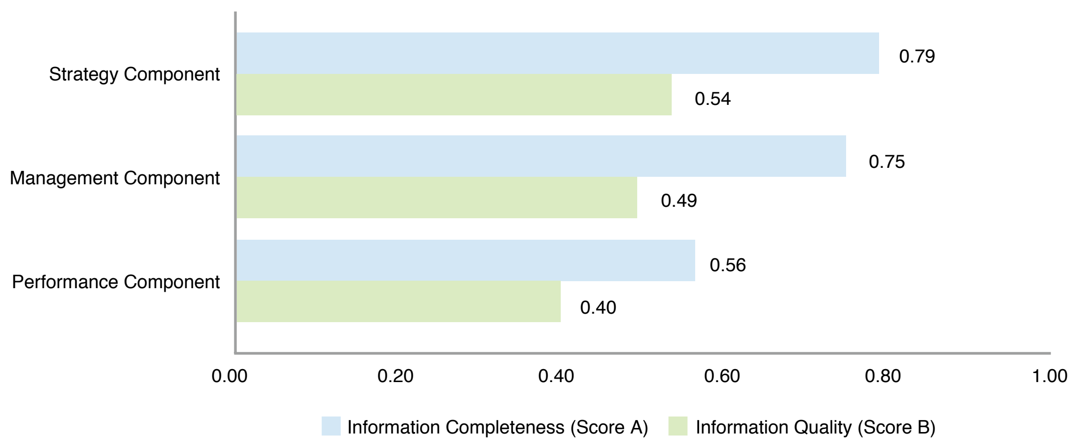
Figure 14:
Relationship between Report Length vs. Information Completeness and Information Quality



Performance of strategy, management and performance

The SynTao Assessment shows the following outcome for the Strategy, Management and Performance components: with respect to the value information completeness, the sampled reports receive a relatively high score for the components Strategy (Score A: 0.79) and Management (Score A: 0.75), however a much lower score is shown for the component Performance (Score A: 0.56). Based on these results, we conclude that many sustainability topics are not yet being addressed in corporate disclosure, especially regarding sustainability performance issues. One important reason for the low information completeness scores might be that a large number of companies still choose to only discuss positive events in their reports and avoid the discussion of sensitive issues. The assessment for the value information quality supports this assumption as all components show very low scores, again especially with respect to Performance. The reports, also this year, continue to include hollow phrases or even inaccurate statements, especially with respect to key quantitative information.

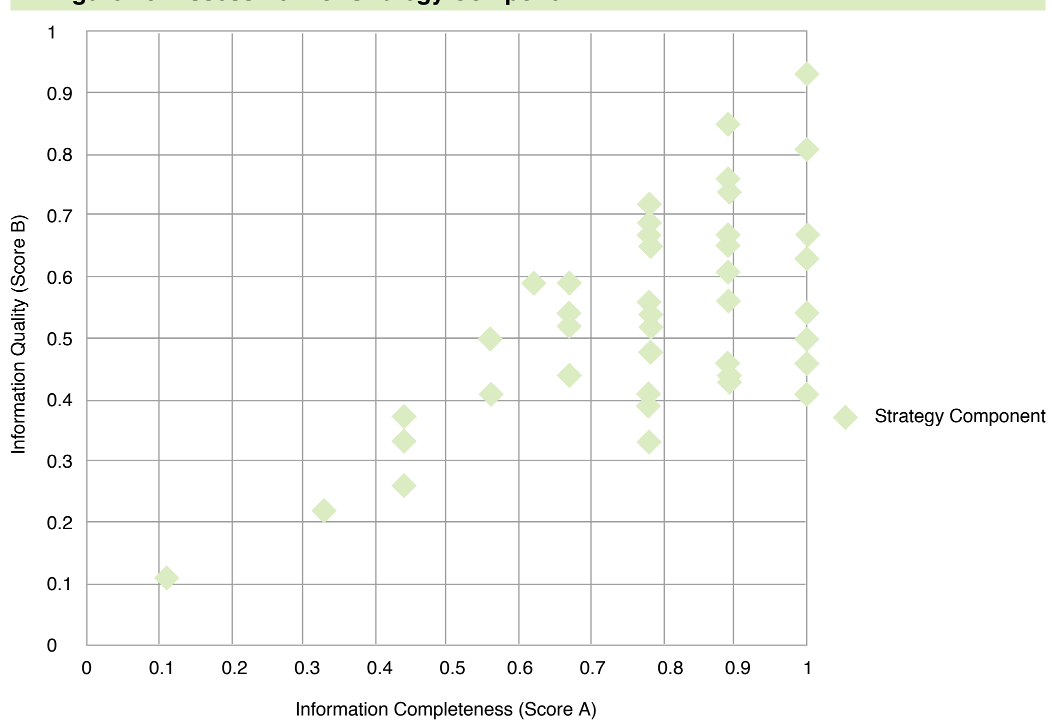
Figure 15: Strategy, Management and Performance Scores



Assessment of separate components

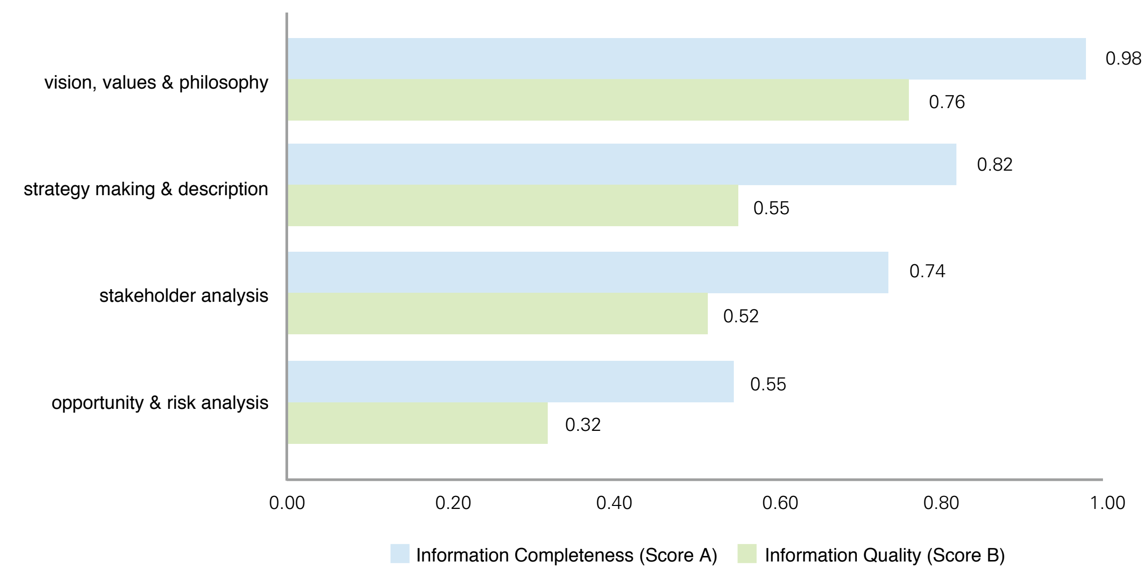
The Strategy Component

Figure 16: Assessment of Strategy Component



The Strategy component assesses the reports on sustainability strategies and management systems. The scores cluster in the higher part on the right side of the diagram (please see Figure 16), which shows that the Strategy component performs well for both values, i.e. information completeness and information quality. As the awareness about corporate social responsibility (CSR) is continuously increasing in China, companies attach more importance to the implementation of sustainability management procedures and explain their approach in the reports, a development that shows great improvement from last year's results. However, as can be seen in the diagram, the value information completeness (Score A) scores much higher than the value information quality (Score B), reflecting a great variation among companies in the discussion of sustainability strategy and analysis.

Figure 17: Strategy Aspect Scores



In the SynTao Assessment, the Strategy component is divided into four sub-categories, the aspects "vision, values and philosophy", "strategy making & description", "stakeholder analysis", and "opportunity & risk analysis". Each of these aspects assess both values information completeness and information quality.

The sampled reports perform especially well on the aspect vision, values and philosophy. The study shows that 98% of the reports discuss all relevant sustainability topics within this aspect with an average score for the value information quality (Score B: 0.76). However, some companies simply list data without sufficient explanations and address sustainability issues in different parts of the report, leaving the reader with a confusing impression of the corporate view on sustainability.

With respect to the second aspect strategy making & description, the sampled reports obtain relatively high scores for the value information completeness. The reports provide satisfactory disclosure of the companies' sustainability strategies. Moreover, 73% of the reports clearly define sustainability strategies. Compared to the value information completeness, the value information quality receives a much lower score for this aspect, which can mainly be attributed to the fact that despite the existence of specific sustainability strategies, the focus is often not clearly described. Further, although many reports include a management statement about the company's sustainability strategy, few reports commit themselves in this section to specific sustainability objectives.

The third aspect risk & opportunity analysis receives the lowest score in the assessment. No improvements can be identified compared to the performance of last year. The score for the value information quality is especially low. Many reports briefly mention sustainability risks but fail to apply these topics to the specific context of the company.

The fourth aspect stakeholder analysis shows a satisfactory performance, consistent to what was concluded based on our findings in the interviews (see Chapter 2), 93% of the interviewed companies were in communications with stakeholders during the process of sustainability report writing. Most reports discuss company stakeholders, types of stakeholder engagement, stakeholders' expectations and company response. One of the shortcomings is that the majority of reports fail to explain how companies identify relevant stakeholders. Companies should disclose identification and prioritization of stakeholder methods, especially crucial for the release of companies' first sustainability report.

Box 5: Shenhua Group's perception of sustainability reporting

The "Social Responsibility Report 2008" released by Shenhua Group Co., Ltd clearly explains the company vision on topics such as energy contribution, scientific development and meaningful stakeholder engagement. The report points out the importance of each issue for the company's social responsibility. Moreover, the report also explains the relationship between the company's view on responsibility and its core values, mission statement and culture.

- Energy contribution: the company's mission and strategic vision, i.e. providing green energy to encourage society's development and developing Shenhua into a world-class energy supplier. These objectives reflect the company's commitment to CSR.

- Scientific development: the company's guiding principle and core values, i.e. forging ahead with a new approach to industrialization, transferring the focus from scale and speed to quality and profits, and incorporating production safety and environment management measures into the company's development strategy. These objectives represent the forms and means of the company's CSR performance.

- A stakeholder engagement: the company's perception of the relationship with stakeholders and the company's expectation of its social responsibility performance. Shenhua expresses the hope that it can construe a harmonious and mutually beneficial relationship with stakeholders, including governments, employees, suppliers and communities.

The report also emphasizes Shenhua Group's ambition to build a "world-class large-scale energy enterprise" enriched by the company's vision on CSR, i.e. building a "respected world-class large-scale energy enterprise and achieving sustainable development". Moreover, when materializing its social responsibility strategy, Shenhua Group promises to act upon its corporate values "forge ahead, be practical and pursue excellence".

Data source: "Social Responsibility Report 2008", Shenhua Group Co., Ltd.

Box 6: Factors impacting social responsibility in 2008, summarized by Beijing Top New Group

The "Social Responsibility Report 2008" released by Beijing Top New Group thoroughly analyzes the company's sustainability risks and opportunities. The chapter titled "factors impacting social responsibility in 2008", summarized four crucial categories of relevance, i.e. 'increasing costs', 'decreasing overseas market demands', 'Olympic impacts' and 'difficulties in financing'. A variety of presentation forms were utilized in the report, such as texts, figures and pictures, creating a high level of readability.

Factors impacting social responsibility in 2008

Increasing costs

Since early 2008, the RMB exchange rate has risen over 7%. The uncertainty about exchange rates has shown a direct impact on our trade orders. What is worse, the serious shortage of domestic cotton supply resulted in a cost increase of 10% to 20% compared to the costs of overseas competitors. Moreover, the new employment protection act and the improvements in employee compensation and benefits made our labor cost to soar by 30%.

Decreasing overseas market demands

Due to the global financial crisis and the sharp decrease in international market demands, our orders have reduced and our exports have collapsed. Many of our overseas purchasers are facing financial distress, with some of them even filing for bankruptcy. Consequently, our export business has suffered to a certain extent.

Impact olympics

During the Olympics, the government implemented such policies as traffic control and chemical enterprises off production, which led to soaring supply prices of materials. Especially the prices of coal, oil, dyes and chemicals almost doubled. Orders for 400,000 pieces of clothes, 1.2 million tons of grey cloth, in total 13 million RMB of sales and 300,000 RMB of profits were cancelled or postponed. Soaring prices and the impact of the Olympics lowered our profits by 2 million RMB in total, including 1.57 million RMB in purchasing and 0.43 million RMB in storage and freight.

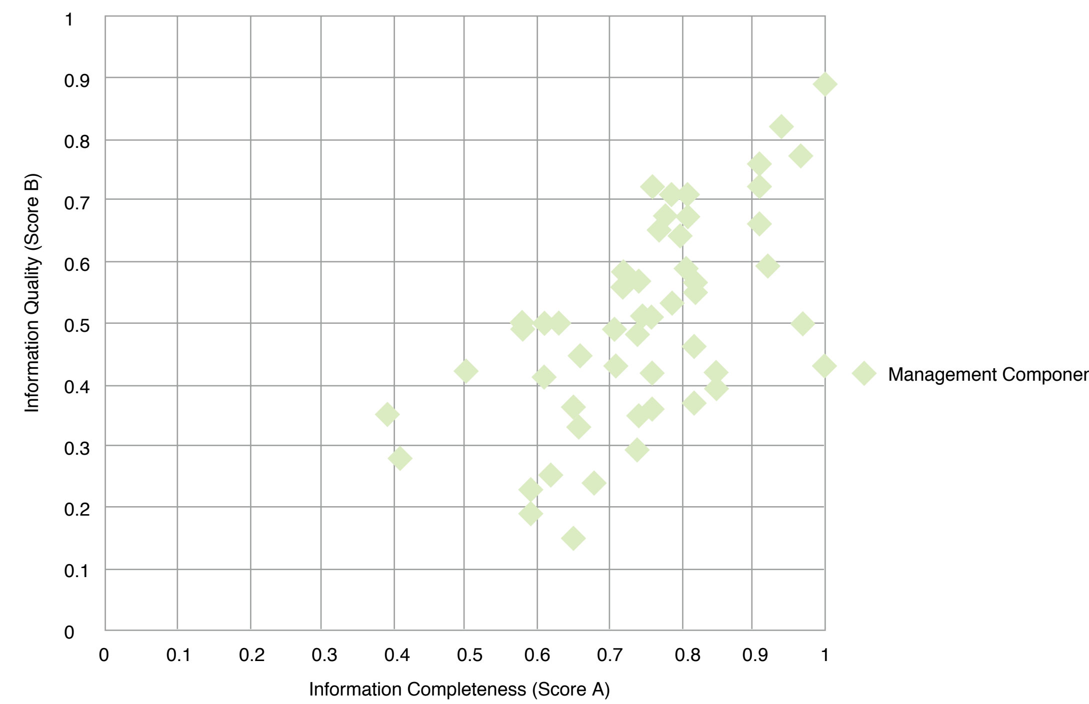
Difficulties in financing

Due to monetary contraction, most banks have tightened lending terms. Since the textile industry is listed as one of the so-called "sun-setting industries" (declining industries), a large number of banks declined or reduced their loans to companies in the garment sector, which increased difficulties in financing textile and apparel companies, including Topnew.

Data source: "Social Responsibility Report 2008", Beijing Topnew Group Co., Ltd.

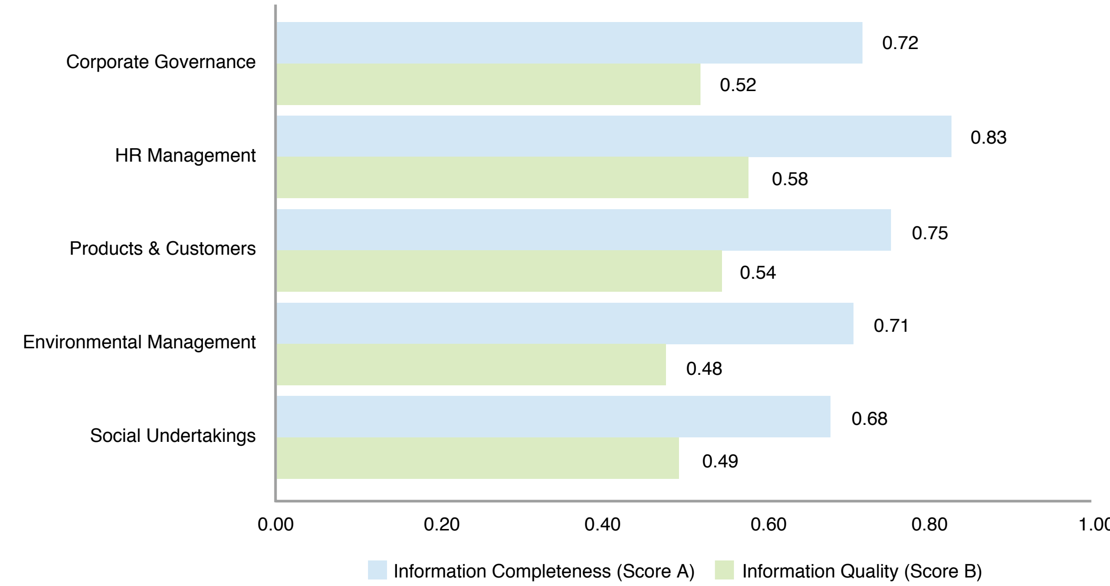
The Management Component

Figure 18: Assessment of Management Component



Overall, the Management component performs well for the value information completeness (see Figure 19), 96% of the sampled reports received a score higher than 0.5. In other words, the information disclosed on the topic of sustainability management is significantly more complete than for the components Strategy and Performance. On the other hand, the values information completeness and information quality do not show a clear correlation. In contrast, the values show great dispersion, which means that the quality of the information with respect to management practices varies significantly among the sampled reports.

Figure 19: Management Aspect Scores



In 2008, the impact of the economic crisis resulted in an increased attention for company management. In this study, the Management component is broken down into five sub-categories, the aspects "corporate governance", "HR management", "products & customers", "environment management" and "social undertakings".

For the first aspect corporate governance, the sampled reports disclose a satisfactory amount of fundamental information about corporate governance issues, such as company structures and management. In particular, 81% of the sampled reports describe the companies' risk control mechanisms, showing a significant increase from last year. Outstanding performance is shown by the finance industry, which abides by strict regulation on corporate governance arrangements. Consequently, corporate disclosure in this industry turned out to be complete and standardized. All sampled reports written by financialcompanies disclose information about risk management and control.

The best performing aspects for the Management component were HR management and products & services. At the core of company operation and management, both aspects are substantially discussed by companies in the reports, reflected in the high scores for the values information completeness and information quality indicators. As rich data collections on these topics have always been collected for internal use, it is only a small step to present this information in sustainability reports.

The fourth aspect environment management, specifically related to the topic of reducing energy consumption, obtained the highest score, with all sampled reports making references to the issue (although to a different extent). However, the reports disclosed little information on management policies and measures related to the reduction of GHG (Green House Gas) emission and other climate change issues. Also, the information that was disclosed on these topics was poor in quality.

Although many reports pay attention to the management of GHG emission, most companies may not have a sufficient understanding of the issue. When proper management systems are lacking, companies can only briefly discuss the issue in the report but they cannot disclose any real data or targets. An increase in quality of disclosure regarding GHG emissions will satisfy stakeholder demand, as for instance illustrated by initiatives such as the Carbon Disclosure Project.

The year 2008 witnessed a series of catastrophic nature disasters in China and many companies initiated a number of rescue operations, providing the business community with clear reputation management opportunities. As a result, the sampled reports were rich in data about corporate disaster relief. Some companies even designated whole chapters of sustainability reports to the description of their efforts. Also, the sampled reports include more information on charity involvement than previous years. This year, the companies' charity efforts appear to have gone beyond donations or money raising activities. Instead, the companies provide specific information about their corporate charity philosophy, with some companies focusing on charity efforts in those areas where, because of the nature of their core-business activities, they can have the greatest impact.

When taking a closer look at industry sectors, the banking industry shows an outstanding performance for its disclosure on "green credit" [19] . According to our statistics, 90% of the sampled reports in the banking industry to disclose information about this topic, reflecting the industry's emphasis on "green credit". Despite the good performance for the value information completeness, there remains much room to improve the value quality of information. For instance, more effort could be made disclose and improve information about the implementation of strategy objectives and the observance of specific environmental standards for development of medium-and-long term green credit.

Box 7: Disclosure of "green credit" policy by the Bank of Communications

The "Corporate Social Responsibility Report 2008"released by the Bank of Communications discloses information about the "green credit" policy, broken down in the following three topics; "establishing systems", "management approach" and "business practice". Information about management measures and experiences in promoting the green credit project are displayed in text and tables.

Improve green credit systems

The report includes a table disclosing policies and management systems concerning the green credit project for 2008.

19 Green Credit is an official policy launched in China in 2007, requiring companies to observe environmental protection rules and regulation when applying for bank credit.

The Policies and Management Systems for Green Credit (2008)

Policies or Systems	Time	Main Content	Implementation
Measures for Implementing the Construction of the "Green Credit" Project of the Bank of Communications	March	Record the environmental information of customers with credits and assign classified lables to them; implement the systems of credit acess, risk management and one-veto approval.	Lable-assigning was finished throughout the bank in June 2008.
The Notice on Standardizing the Classified Lables of Environmental Information and Improving the "Green Credit" Project	April	Stipulate the standardization requirements and support tools for information survey and lable classification.	Criteria were provided for in-depth investigation and accurate classification and arbitrariness was reduced.
The Notice on Implementing the Routine Management for the Construction of the "Green Credit" Project	August	Incorporate the "green credit" policy into credit access, customer selection, credit approval and post-credit management.	"Green credit" was incorporated into the day-to-day credit management and the credit staff's awareness of responsibility and risks was enhanced.

Specialized lean management

As the first domestic commercial bank to environmentally manage all credit-customers and businesses, the Bank of Communications disclosed in the sustainability report the practice of labels, i.e. assigning classified labels according to the impact on the environment. The labels are broken down into seven categories in three colors, red, yellow and green. Different credit-granting policies were adopted for such procedures as credit access, credit approval and post-credit management.

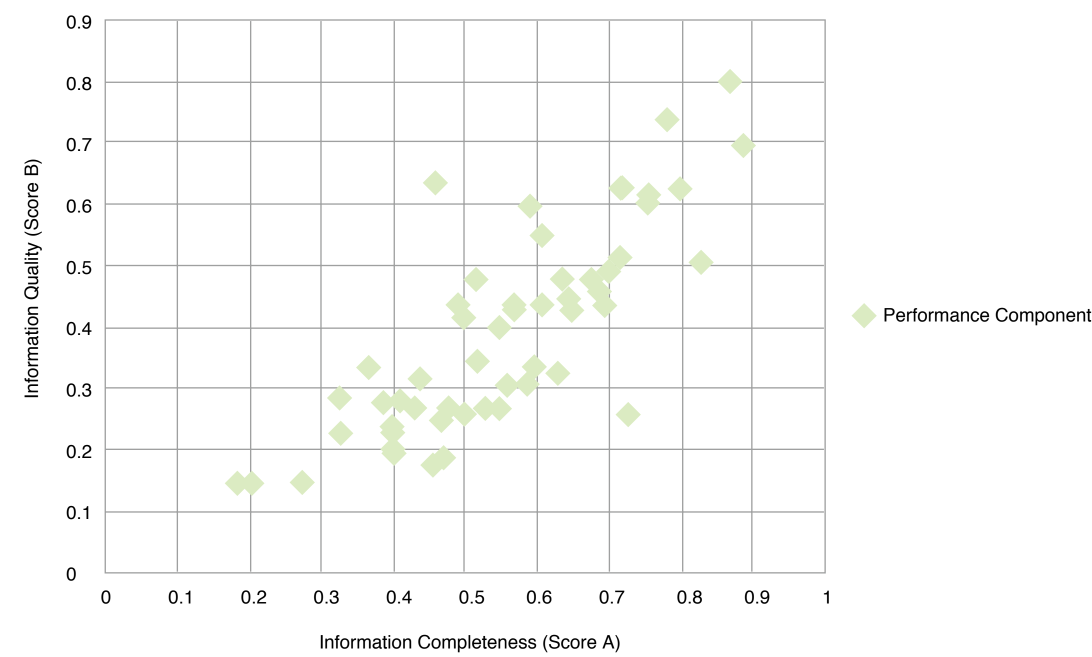
Proactive credit measures support protection of environment

The report disclosed a number of key activities exercised to support the environment in 2008.

Data source: "Corporate Social Responsibility Report 2008", Bank of Communications Co., Ltd.

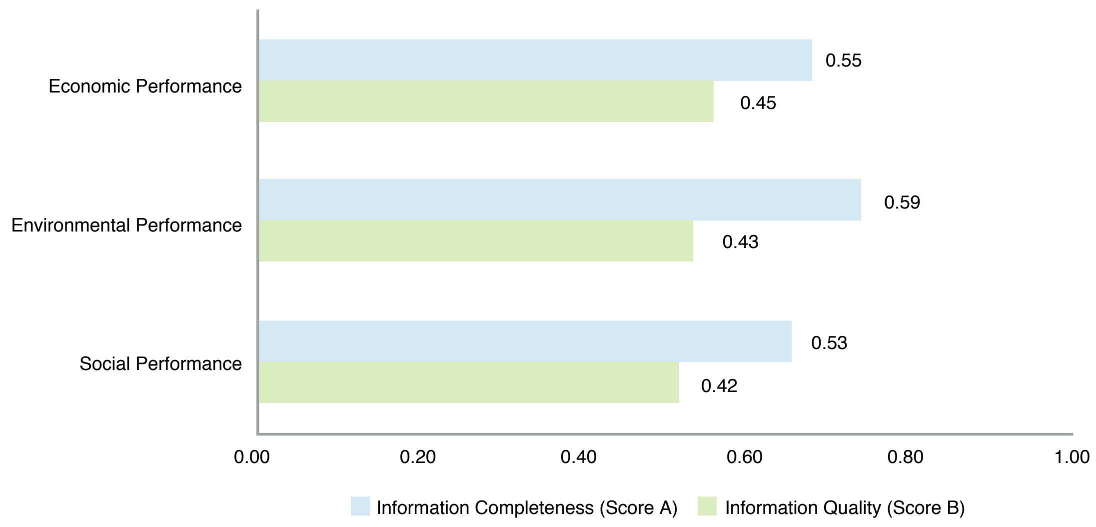
The Performance Component

Figure 20: Assessment of Performance Component



Overall, the scores for the Performance component are lower than the scores for the Strategy and Management components, with a score of only 0.56 for the value information completeness. In other words, just over half of the aspects for the Performance component have been included in the sampled reports on average. However, Figure 21 displays widely scattered scores; the sampled report scores vary greatly within the Performance component. The values information completeness and information quality show a clear correlation, reflecting that there is a strong connection between the different number of sustainability topics addressed and the level of information disclosed in the reports. In addition, the sampled reports are relatively consistent in their understanding and presentation of the Performance component aspects.

Figure 21: Performance Aspect Scores



The Performance component is broken down into three sub-categories, the aspects "economic performance", "environmental performance" and "social performance", none of them receiving a high score in the study. The SynTao Assessment shows that poor information disclosure may result in two different outcomes; a low score for the value information completeness (Score A) or a poor score for the value information quality (Score B).

The low score for the value completeness of information occurs when companies choose not to discuss any sensitive issues. For instance, only 16% of the sampled reports disclose information about company violation of law and regulation, whereas only 11% of the companies disclose information about company violations regarding environmental law and regulation. More information is disclosed about company operations. However, only 52% of the reports disclose information about company innovation, as for instance newly-granted patents, human resources and innovation investments. Companies should realize that stakeholders are not only interested to read about charity activities in the reports, they also would like to learn about management of sustainability risks. Therefore, in order to appeal to responsible-oriented stakeholders and investors, sustainability reports should include more information about company innovation and research & development, especially in the area of renewable energy and new technologies.

The SynTao Assessment results show that, the score for the value information completeness is only 0.47 for key quantitative elements, indicating a low disclosure level in the reports. High-quality disclosure of quantitative information requires extensive data collecting capabilities from companies. Since many companies have not always established sound data collecting and management systems, they may have not enough data available when they start writing their sustainability report. Consequently, many companies resort to storytelling and pictures to illustrate their sustainability performance, leaving an unconvincing impression with the reader. With respect to the value information quality, the reports receive a fairly low score for the element reliability, as most of the companies fail to explain how they collected their data. Regarding the element comparability, many companies tend to disclose only absolute numbers without making comparisons to results in previous years or general industry data, which makes it difficult for readers to come to valuable conclusions.

Box 8: Information disclosed by China Ocean Shipping Company

China Ocean Shipping Company (COSCO) has established a model for companies from China, and the rest of the world, to disclose information for key sustainability indicators. When writing the "Sustainability Report 2008", COSCO complied with the requirements of the "Framework of the COSCO Sustainability Index System, Definitions and Materials" (2008), which includes 647 key process indictors and key risk indictors. For the "management approach and performance indexes", each chapter has a section entitled "performance indexes", making use of a combination of texts, tables, charts and other presentation forms to disclose the company's quantitative and qualitative performance. For the main topics, the company supplies comparable data from the last three to six years.

For instance, the chapter "Environmental Performance Indexes and Key-note Report" report discloses detailed information in quantitative indexes about the company's environmental performance for a number of aspects, including raw materials, energy, water, biodiversity, waste gases, water and solids, products and services, laws and regulations, transportation, and overall performance. Indexes, tables and charts were used to disclose quantitative information from the last five to six years.

- Raw materials: the number of ship-repair steel structure works, steel volumes used for ship-making, and use ratio of steels for ship-making
- Energy: gross consumption, gross consumption and unit consumption of classified energy, unit consumption of fuel oil by major ship types;
- Electricity: total electricity consumption, electricity consumption of offices
- Water: total water consumption and breakdown statistics, year-on-year reduction of water consumption;
- Waste gases, water and solids: total emission of major waste gases, pitch mark turnover emission; indirect CO_2 emission, tons of waste solids, amount of ship industry waste solids processed and disposed, total amount of waste solids recycled and incinerated, investment into reducing waste gas emission, statistics of retired ships;
- Transportation: travelling fares saved by teleconferences;
- Overall performance: total expenses, gross investment and key investments for environmental protection.

Obviously, the quantitative indexes disclosed by the report cover a widerange of issues. When disclosing a total amount, many indexes also provide a breakdown classification according to international treaties of the companies' businesses.

The disclosure of performance indexes in this report is highly complete, standardized and comparable, which is directly related to COSCO's efforts in the field of sustainability management, especially as can be seen from the establishment of its sustainability information platform. The platform enhanced COSCO's management of the sustainability core indexes, which made it convenient for COSCO to electrically store and manage the sustainability data of its branches at all levels. The collection and storage of data started in February 2002, ensuring a complete and consistentdata platform.

Data source: "Sustainability Report 2008", China Ocean Shipping Company

3.4 Summary

Generally speaking, the sampled sustainability reports from 2009 are of acceptable quality. Most reports provide a link between the company's social responsibility performance and corporate strategy, management and performance.

The SynTao Assessment results show that the sampled reports perform well for the value information completeness; most reports include information about management operations, the environment and impact on society. Especially for the Strategy component, the value information completeness received high average scores (Score A), reflecting the implementation of social responsibility philosophies in corporate strategy and incorporation of these views into future planning. In the case of the Management and Performance components, the score of the value information completeness (Score A) is higher than the score for the value information quality (Score B). In other words, most companies consider reporting as a platform for information disclosure and hence, have tried to discuss a wide range of sustainability topics.

Sustainability reports in China are released based on the principle of voluntary disclosure, as a result some companies feel the freedom not to provide information on all relevant sustainability topics and especially the quality of reports leaves much room for improvement. For instance, most companies will not discuss potentially sensitive issues in their report, a clear example of selective disclosure. Also, companies provide a poor level of quantitative information; many data sets are not complete or lack standardization. Especially in the case of the Performance component, many reports include information for the sustainability topics that the company performed well on, but they lack information about the topics that were more difficult for the company to tackle, an imbalance that directly impacts the neutrality of sustainability reports.

Unquestionable, China's sustainability reporting has matured over the years. Many companies established internal reporting mechanisms and discuss a wide range of sustainability topics. However, when it comes to the level of information disclosure, these reports are far from perfect. An excellent report is defined not only by describing historical achievements but also by explaining future objectives, not only by describing positive events but also by an accurate presentation of all facts, targetting an audience of all possible stakeholders. To that end, the companies must aim to bring sustainability reporting on a higher level, especially focusing on meaningful disclosure of relevant sustainability topics. Moreover, based on thorough engagement with stakeholders, companies should increase the transparency of information and improve the readability and utility of their reports.

Stakeholders require increased transparency from companies and sustainability reporting is changing from a simple information tool into more comprehensive and flexible means of disclosure on a wide scope of issues, sometimes also referred to as "non-financial disclosure".

4 Non-Financial Disclosure

4.1 What is Non-financial Disclosure?

Non-financial disclosure as opposed to financial disclosure

Corporate disclosure, a term frequently used in capital markets, refers to the legal framework that requires companies to disclose factual information about securities to provide investors with relevant data necessary for taking well-informed investment decisions. The practice of corporate disclosure results in documents highlighting corporate finances, such as (semi-)annual reports and major proclamations. Disclosing this type of information is sometimes defined as "financial disclosure" as opposed to "non-financial disclosure", focusing on different types of corporate issues.

Non-financial disclosure refers to the public release of corporate information beyond financial accounting, e.g. disclosure about investor rights, operations, management, and governance (many more discussion issues than just those topics covered by the notion sustainability). Currently, there is a growing recognition of the importance of non-financial disclosure in the overall assessment of a company's risk profile, enabling investors and stakeholders to accurately evaluate a company's values and hence, make more sound (investment) assessments. The quality of non-financial disclosure illustrates a company's understanding of its accountability to investors and other stakeholders.

Alternative definitions of non-financial disclosure

In China the concept of non-financial disclosure is still gradually being introduced and the understanding of the concept varies greatly among companies and stakeholders. Some definitions define the concept as follows:

Extra-Financial Disclosure

This definition uses the word "extra-" instead of "non-", highlighting that this type of information is still closely related to a company's financial performance. In Chinese, the definition is sometimes translated as "beyond financial disclosure" to highlight the importance of non-financial information.

Sustainable Disclosure

This definition uses "sustainability" to cover all possible non-financial information topics, especially corporate information related to the environment.

Environmental, Social and Governance Disclosure (ESG Disclosure)

This definition breaks down non-financial information into environmental, social and governance categories. Although a fairly new notion, this concept has attracted widespread recognition. For instance, many global financial institutions such as Goldman Sachs appear to favor this specific wording.

4.2 Values of Non-financial Disclosure

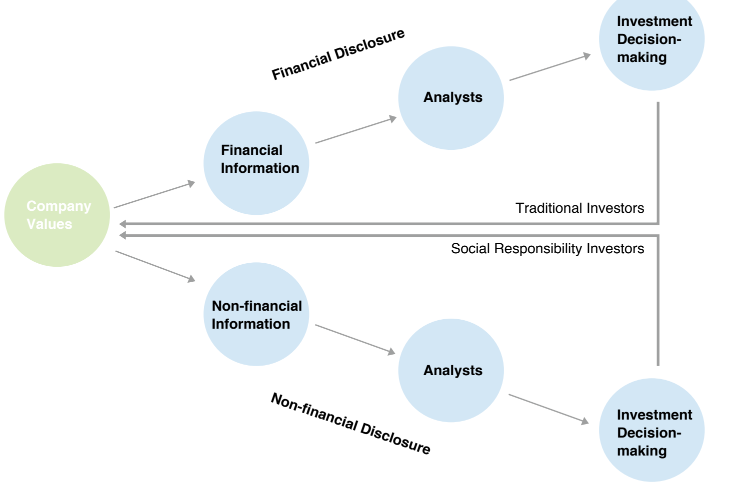
Investors estimate real value of companies

In capital markets, corporate disclosure by listed companies plays a significant role, as it is the main source of information for the investor-community. The contents of information disclosed by listed companies can reflect the features of capital markets' growth and the major concerns of investor. Initially, most investors calculate growth and profitability predictions solely on financial data; therefore, listed companies would focus their corporate disclosure on financial performance. Following the Enron Corp and WorldCom scandals in the beginning of the 21st century, many realized that "just assessing the financial value" of corporations might not provide the investor and stakeholders with enough valuable information, many investors became increasingly interested in the non-financial performance of companies, e.g. governance structures, as it was recognized that arrangements in this category might have huge impact on future corporate developments. Following the increase in environmental protection measures and corporate social responsibility (CSR) activities, it has become clear that the share price of listed companies is potentially affected by a wide range of issues, not only the financials.

In the European and American markets, the analysis of non-financial disclosure has generated a relatively self-sufficient and fast growing niche market. This specific market comprises dedicated institutional investors and dedicated non-financial analysts, as well as its own market indexes. One of those indexes is the Dow Jones Sustainability Index, which selects the best performing social responsibility companies from the world's top 2,500 listed companies as the component stocks of the index. When selecting the companies, one of the criteria is the quality of the non-financial information disclosure as provided by the listed companies.

In traditional capital markets, analysts analyze financial information supplied by listed companies (usually annual reports) and provide, partly based on this data, investment decision references. Similarly, analysts analyze non-financial information supplied by listed companies (usually sustainability reports) and provide, partly based on this data, sustainability investment references (e.g. pension depositories).

Figure 22: Non-Financial Disclosure and Company Values



Box 9: Dow Jones Sustainability Indexes (DJSI)

The notion of CSR stresses that only when a company attends to the interests of all stakeholders, it can create value for shareholders. This view has been verified by the increasing number of companies that bring this notion in practice. Some investors have adopted (non-)financial analysis measures that assess the positive and negative impact of investment decisions on society and the environment, and as such take a corporate social responsibility notion into consideration for portfolio management purposes, also called socially responsible investing. The increase in socially responsible investment in the United States has led to the establishment of a series of socially responsible investment indexes, helping investors to identify the listed companies that show socially responsible awareness and might be worth to invest in. These indexes include: the Dow Jones Sustainability Index, FTSE4 Good Index, KLD-Nasdaq Social Index, Domini 400 Social Index and Calvert Social Index. Of all these indexes, the Dow Jones Sustainability Index is currently seen as the most influential socially responsible investment listing.

On September 8, 1999, Dow Jones launched the world's first sustainability index – the Dow Jones Sustainability Index World (DJSI World). The index tracks the worlds' largest companies with excellent performance in sustainability. The index selects the top 10% best performing companies from the world's top 2,500 companies listed by the Dow Jones Global Index as its component stocks. The total market value of the shortlisted companies must account for 20% of their industry. Since the launch of the Index, the DJSI has been well received by investors. Many prestigious multinationals such as Intel and Bayer, consider it an honor to be listed. The DJSI is seen as the "Ivy League" of the top sustainable enterprises and is used as a benchmark by most of the world's socially responsible investors.

When the comprehensive sustainability performance of listed companies is calculated to select the DJSI component stocks, the way information is collected, processed and weighed has direct influence on the final assessment result. The analysts of Dow Jones acquire information from three types of sources: 1) company engagement, 2) questionnaires and 3) publicly available materials such as sustainability reports and third-party comments. Based on these three sources of information, analysts assess the sustainability performance of the listed companies and select the top 10% companies of each industry to create the latest DJSI overview. Therefore, whether listed companies will be selected to be listed on the Index depends much on the quality of their non-financial disclosure and on the quality of the information that is disclosed. Companies, no matter how outstanding their financial performance, can not be selected for the DJSI if they will not provide information on non-financial topics, illustrating the importance of corporate non-financial disclosure for the DSJI.

At present, China Mobile is the only company from the Chinese Mainland that has received a listing on the DJSI.

Assessing corporate opportunity and risk

The practice of non-financial disclosure provides companies with a structured approach, different from the traditional framework of financial analysis, to reflect on a wide scope of company opportunities and risks.

The value of reporting is well illustrated in the case of Carbon Dioxide Emissions. The Carbon Disclosure Project (CDP) is a plan initiated by major international institutional investors to promote and acquire information about climate change policies implemented by FT 500 companies. Launched in 2000, CDP sent its first questionnaire about corporate carbon emissions to listed companies in 2003, followed by a questionnaire every year thereafter. Companies participating in the survey were asked to provide information about their carbon emissions performance. Some companies have stated that participating in the questionnaires has helped them to gain insight in the costs of their operations and formulate carbon emissions reduction plans. Some companies even discovered a new profit source, i.e. exchanging carbon credits in the market.

Strengthening stakeholder communications

By providing more comprehensive non-financial disclosure, companies can strengthen their stakeholder communications. Compared to financial information disclosure, non-financial information disclosure may have more potential readers, as it is likely to be of great interest to stakeholders and government, media and NGOs. In addition to responsible shareholders, NGOs may be the most concerned about non-financial information. For example, many environmental NGOs are keeping track of companies' environmental information disclosure, and closely monitor the timeliness and validity of these information. Through the information disclosure, company can keep close touch with these kinds of NGOs

For companies that operate, for instance, in energy intensive industries and/or conflict regions, non-financial disclosure can also help them to enhance their 'license to operate'. The continuity of company operations depend strongly on the acceptance of the local community. For instance, local communities may raise concerns about environmental pollution that companies may cause. In such situations, high quality non-financial disclosure might ease tensions with communities as they are better informed. As a result, conflicts can be alleviated and operational risks can be reduced.

4.3 Sustainability Reporting compared to Non-Financial Disclosure

Sustainability reporting and non-financial disclosure have much in common; releasing sustainability reports is a type of non-financial disclosure. However, non-financial disclosure should emphasize the accurate evaluation of all company values and not only those few chosen by a company to be featured in a sustainability report. Sustainability reports are annually released in the form of presswork, whereas non-financial disclosure allows for many types of disclosure formats. More importantly, comprehensive non-financial disclosure can be much timelier than sustainability reports since information can easily be put on the corporate website, like any other corporate announcements. Also, non-financial statements are of crucial importance to understand the internal management control mechanisms of a company.

The table summarizes the differences and similarities between sustainability reports and non-financial disclosure. An excellent performing company in the field of non-financial disclosure would go beyond sustainability reporting and choose to link financial and non-financial disclosure, offering stakeholders an integrated picture of the company.

Table 3: Comparing Sustainability Reporting and Non-financial Disclosure

	Sustainability Reports	*Non-financial Disclosure*
Purpose	Inform stakeholders about sustainability achievements and implementation of corporate social responsibility policies.	Informs stakeholders about the non-financial performance of the company.
Form	A yearly publication, which is usually printed and released on the Internet.	There is no fixed format, information can be released on the company website, newspaper articles, press conferences etc.
Timeliness	Annual	Timeliness is crucial, whenever relevant.
Relationship	Sustainability reporting is an important type of non-financial disclosure.	Non-financial disclosure can occur in a variety of formats, one of which is through the release of a sustainability report.

4.4 Development of Non-financial Disclosure

Initiatives to standardize the practice of non-financial disclosure can be clearly seen in Europe and the United States. In 1991, the American Institute of Certified Public Accountants (AICPA) established a special committee to provide policy-making suggestions on improving financial reporting skills. The special committee submitted a report entitled "Improving Business Reporting - A Customer Focus: Meeting the Information Needs of Investors and Creditors" in 1994, in which was suggested that companies should increase disclosure regarding non-financial issues such as strategy, risks & opportunities and key commercial procedures. In 2001, in order to encourage listed companies to disclose more financial information, the Financial Accounting Standards Board (FASB) of the USA released a research report named "Improving Business Reporting: Insights into Enhancing Voluntary Disclosures", with the purpose to help companies improve financial reporting and encourage them to voluntarily disclose information. Although the report did not suggest compulsory non-financial disclosure, it did point out that companies should voluntarily start disclosing information on non-financial topics. Afterwards, a special academic committee was founded in order to study non-financial disclosure. The research showed that non-financial performance indicators can help to predict corporate financial performance and add value to the companies' equities[20].

In the following years, research on non-financial disclosure multiplied and investors began to pay more attention to the development. In 2006, the United Nations launched the United Nations Principles for Responsible Investment (UN PRI), calling investors' attention to issues such as the environment, society and governance, and encouraging listed companies to disclose relevant information on these topics. Today, over 500 investment organizations, which control over 18 trillion US dollars, have joined this initiative. In 2008, the Chartered Financial Analyst Institute (CFA Institute) issued the report "Environmental, Social, and Governance Factors at Listed Companies: A Manual for Investors", pointing out that financial analysts should pay close attention to non-financial information in order to accurately assess the real value of listed companies.

Security regulators and stock exchanges have also started to require increased non-financial disclosure from listed companies. For instance, the Malaysia Stock Exchange requires listed companies to disclose non-financial information in annual reports; the London Stock Exchange asks listed companies to disclose information about non-financial topics such as the environment, society, workplace and communities. In January 2010, the U.S. Securities and Exchange Commission passed a guidance that requires listed companies to disclose information about investment risks caused by climate change. This is the first worldwide requirement for listed companies to disclose information on the potential impact of climate change on corporations.

4.5 Non-financial Disclosure of Listed Companies in China

Unfortunately, resources - such as time and staff - were limited for this research, therefore we were unable to carry out a sampled assessment of the non-financial disclosure of China's listed companies. Instead, we carried out a qualitative analysis on the general status quo.

Chinese society is relatively unfamiliar with non-financial disclosure

Generally speaking, the whole Chinese society, including government, companies and the public, is still relatively unfamiliar with the term "non-financial disclosure". The Chinese translation of the term "non-financial disclosure" was up to 2009, was seldom found in government and regulating documents, company disclosure or media articles.

Companies have recently started implementing sustainability reporting

An increasing number of listed companies have started to release sustainability reports regularly, which is currently the most important means of non-financial disclosure for Chinese companies. Unfortunately, the absolute number of companies releasing a

20 Ma Lianfu & Zhao Ying, A Review on Oversea Studies on Non-financial Disclosure, "Contemporary Finance & Economics", 2007 (7).

sustainability report is still quite small, accounting for only a tiny proportion of all listed companies.

Listed companies release sustainability reports for a variety of reasons, and some of them might not have a voluntary basis. Therefore, some companies have not practiced, in addition to a sustainability report, any other types of relevant non-financial information disclosure. In the last two years, CDP sent questionnaires to the top 100 listed companies in China but no more than 30% of the companies have provided a response, which shows great corporate ignorance or indifference about the importance and benefits of corporate transparency with respect to non-financial topics.

Promoting the practice of Non-Financial Disclosure

Although government and regulators have not emphasized the importance of full corporate "non-financial disclosure", recent policies and documents suggest that they do hope to create a more transparent and responsible market in order to encourage companies to release more information on corporate non-financial topics.

The Ministry of Environmental Protection issued the "Environmental Information Disclosure Measures (Interim)", which requires highly polluting companies to disclose information about pollutant discharges. The State-owned Assets Supervision and Administration Commission issued the "Guiding Opinions Concerning CGOs Performing Social Responsibilities" to encourage CGOs with resources to compile and issue sustainability reports on a regular basis. The Shanghai Stock Exchange and Shenzhen Stock Exchange have issued guidelines that require some listed companies, and encourage all companies to release corporate responsibility reports. Meanwhile, the Shanghai Stock Exchange also issued the "Environmental Information Disclosure Guidelines for Listed Companies of Shanghai Stock Exchange". Recently, the China Securities Regulatory Commission (CSRC) required GEM companies to increase the proportion of non-financial disclosure in their quarterly reports, including operation of main businesses, core competitiveness, intangible assets, major changes in core technical teams or key technicians, and advantages and difficulties in future operation. Although CSRC's definition of non-financial information differs from the definition in our research, this requirement also shows that regulators have developed a wider interest other than financial reporting. We expect the government and regulators to specifically promote non-financial disclosure in the future.

NGOs are pressing on

NGOs are important recipients of corporate non-financial disclosure releases. As many of these organizations have an in-depth understanding of severe societal issues, they are eager to learn more about the environmental and social performance of companies. Recently, two reports released by NGOs show great concern for the corporate impact on society and the environment. The NGO Green Watershed released the report "Environmental Records of China's Banking Industry (2009)" about the environmental policies, standards and measures of a dozen of China-funded commercial banks. When conducting the analysis, the NGO encountered difficulties when collecting information about the environmental impact of banks. In addition, the Institute of Public and Environmental Affairs released the report "Hong Kong's Role in Mending the Disclosure Gap". In this report the organization reveals that among the companies listed in the Hong Kong Stock Exchange, including China mainland-based extra large companies such as Sinopec, PetroChina, Minmetals Resources and China Resources, 175 are recorded to have violated environmental laws. However, these violations and excessivenesses are seldom featured in annual reports or on corporate websites. The report also points out that the Hong Kong Stock Exchange should formulate appropriate disclosure rules with respect to corporate environmental violation. It is expected that NGOs will continue to pressure listed companies to increase information disclosure regarding non-financial issues via media and regulators. Moreover, as the public pays more attention to corporate behavior, listed companies will also face more and more pressure from consumers.

4.6 Summary

Although the practice of corporate non-financial disclosure has not yet received wide recognition in China, the notion will also become rapidly important in this country. Governments, regulators, investors, NGOs and media should combine their efforts to encourage listed companies to disclose balanced and timely information about financial and non-financial issues. Shareholders, on the other hand, should make full use of this type of data and support the development of a socially responsible investment market, as currently exists in the European and American markets.

However, as the quality of general information disclosed by China's listed companies is still far from accurate and the market is flooded with incorrect data, some people think that first, the practice of financial disclosure should dramatically improve before companies can move on to the practice of non-financial disclosure. SynTao believes that full corporate disclosure should always contain both financial and non-financial issues. Today, Chinese companies have become more and more familiar with the idea of being transparent with respect to their financials, unfortunately have not applied this same practice to non-financial topics. Therefore, encouragement, support and training in the area of non-financial disclosure is needed. Disclosure of non-financials is a beneficial supplement to the practice of financial disclosure, since the former enables investors and other stakeholders to evaluate the real values of companies.

To accelerate China's corporate non-financial disclosure development, two things can be done. Firstly, the significance and impact of non-financial disclosure should be clearly defined, additionally a non-financial reporting framework should be created that suits both China's present needs and international trends. Secondly, it should be understood how to assess non-financial disclosure. When designing an assessment method for sustainability reports (see Chapter 3), we also took the compatibility of this method with comprehensive non-financial disclosure into consideration. Therefore, we propose that the SynTao Assessment Framework for Sustainability Reports can also be used to assess different types of non-financial disclosure publications. SynTao will do its uttermost best to put the establishment of a Chinese non-financial disclosure framework, closely linked to corporate financial performance, and the establishment of an assessment method high on the business agenda .

Special Subject: Carbon Disclosure Analysis

In 2009[21], SynTao selected 34 sustainability reports - published within the industry sectors "energy intensive" and "financial"[22] - and analyzed the content of these documents on the topic of climate change. We analyzed the reports according the following four aspects: 1) knowledge and perception; 2) responding strategies; 3) specific measures; and 4) emission data.

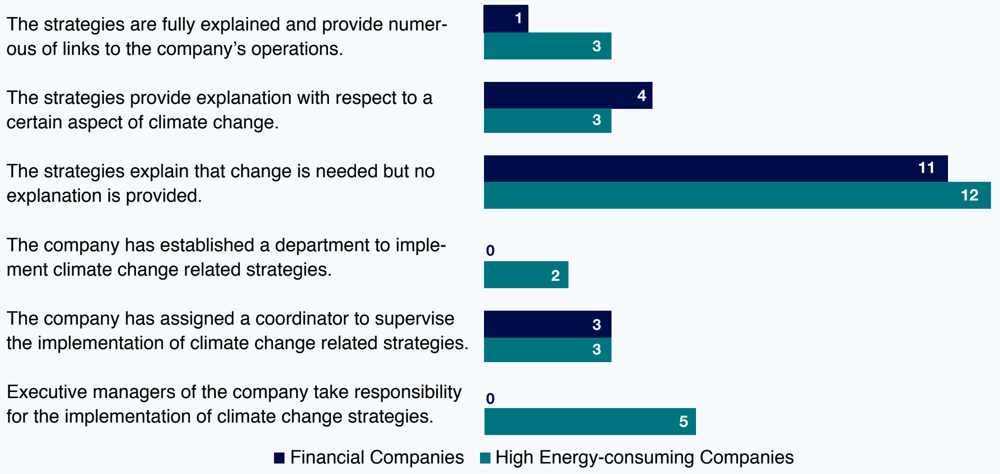
Knowledge and perception

Based on the SynTao study, we conclude that on average, climate change is not explicitly discussed in the sustainability reports for the year 2009. Among the 34 reports, 4 companies dedicated a separate chapter to the issue of climate change and half of the companies discussed the risks or opportunities related to climate change.

Almost all companies discussed at least one aspect directly linked to climate change (e.g. energy savings, emission reduction and new-energy development) to a certain extent in their reports.

Most reports (approximately 67%) touched upon the importance of strategy, but failed to explain the specifics of the plans.

Figure 23: Discussion of Climate Strategies in Sustainability Reports



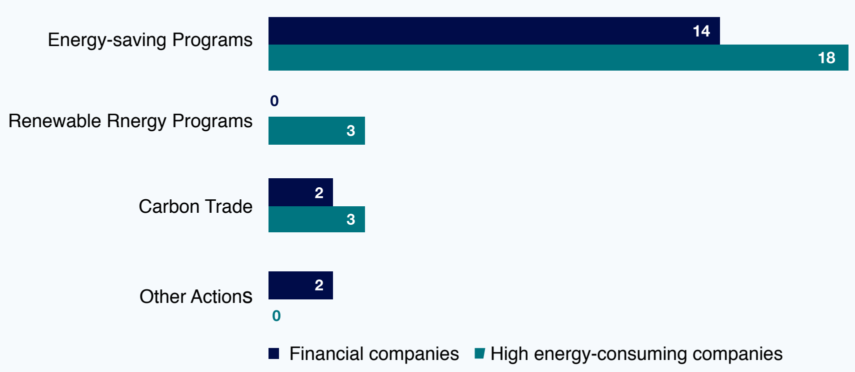
21 This section is an excerpt of "CDP 2009 China Report". Please find details of Carbon Disclosure Project (CDP) and full text of the report at http://www.syntao.com/new_theme4.asp?ThemeID=98.

22 These two industries are representative for the whole of China. Energy intensive companies are important drivers of economic development but major sources of greenhouse gases. As to financial companies, they are chosen for their significant indirect impact on the environment, since their capital flows can guide the allocation of resources and hence promote the development and application of low-carbon technologies.

Specific measures

Most sustainability reports disclose some of the specific measures taken by the company to tackle climate change. We have divided the information about these measures into four types of plans: 1) energy-saving programs; 2) renewable energy programs; 3) carbon trade; and 4) other actions. Over 90% of the reports introduce energy-saving programs, followed by carbon trade. An overwhelming majority of the sampled companies fail to disclose specific information about actions that were undertaken to tackle climate change.

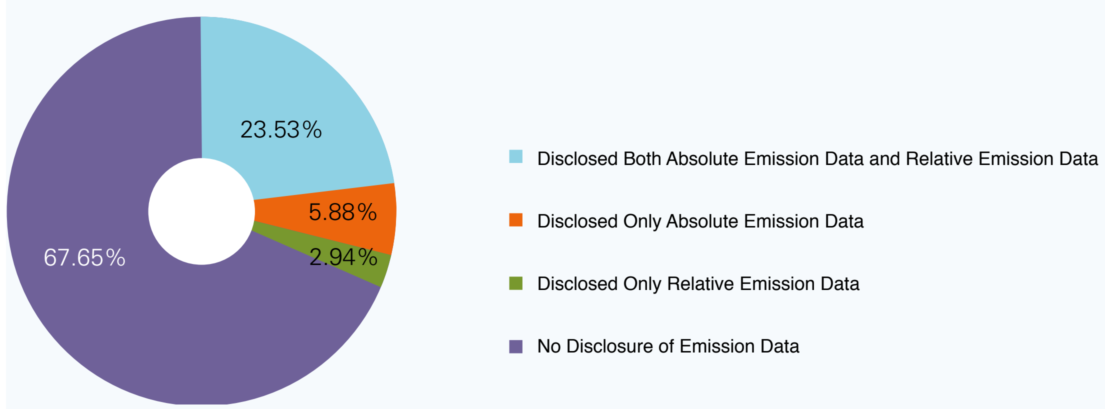
Figure 24: Discussion on Responding Measures in Sustainability Reports



Emission data

We have divided the disclosure of emission data by companies into two categories: absolute data (non comparative) and relative data. The analysis of the sustainability reports shows that 24% of the companies disclosed both absolute data and relative data, 6% disclosed only absolute data, 3% disclosed only relative data, and the other reports did not disclose any emission data. None of the reports that disclosed carbon emission data explained their methodology for calculating greenhouse gas (GHG).

Figure 25: Discussion on Emission Data in Sustainability Reports



5 Sustainability Reporting Trends

The number of reports will reach a new record high

Every year, the number of sustainability reports released in China has significantly increase. SynTao believes that also in the next two to three years, the number of reports will continue to grow. To this date, there are still numerous of Chinese companies that have not yet released their first document on sustainability performance and therefore, even if only a small proportion of these companies decide to start reporting, the number of published reports can still grow substantially.

We believe that sustainability reporting in China has adopted a more standardized approach over the last year. Releasing sustainability reports is no longer seen as something that is only done by a few leading or foreign-funded companies. The practice is now seen fit for companies in all industries and from all types of ownership. A vast growing number of large-scale companies have released responsibility reports in the past years, making reporting a regular and essential part of sustainability management practices.

In the coming year, we expect sustainability reports to include richer data sets and to include a wider range of disclosure on non-financial issues. For instance, in late 2009, the Chinese government announced its objective to substantially reduce carbon emissions per GDP. In response, we expect increased alertness among companies about carbon intensity targets, possibly leading to more detailed carbon emissions disclosure for the 2010 sustainability reports.

Wide variety in quality of sustainability reports

Balancing information quantity and quality is one of the most crucial requirements for sustainability reporting. In our study we see as a general rule that when the quantity of a report increases, the quality of the report tends to worsen. This mechanism may be attributed to the current lack of experience in corporate reporting as many companies have only recently released their first sustainability report. In addition, many companies only released a report because they were required to do so by the stock exchange and therefore, might not have spent enough time on the preparation of the document. In the case of these examples, it should not be surprising that the quality of those reports may be poor. Also, as the number of reports is rising, we expect to see wider variety in quality. Another important aspect is time. As companies gather more experience in reporting over the years, the quality of reports will also increase with the years.

However, the poor quality of some sustainability reports may have nothing to do with the company's experience in reporting. Poor quality of sustainability reporting has been a chronic problem in China. When conducting this study, we unfortunately found that quite a few reports did not provide complete information disclosure and displayed obvious examples of selective disclosure. Some companies, despite the existence of numerous sustainability report-writing guidelines, intentionally neglect topics that would force them to discuss sensitive topics such as violation of laws and polluting practices. Whatever the reason for omitting potential sensitive company activities, companies need to take active measures to solve this clear subjectivity problem. Otherwise, stakeholders – including shareholders – will have great difficulties to assess the company's overall values, obstructing communication objectives for both sides.

Sustainability reporting creates values

SynTao has always stressed that sustainability reporting creates values. The report writing process is all about the discovery of corporate values. Therefore, we feel that our research continues to be best captured by the title "A Journey to Discover Values".

As companies accumulate more experience in sustainability report writing, we expect that the overall quality of China's sustainability reports will also improve gradually, hopefully resulting in a growing number of high-quality reports. Our assessment shows that a substantial number of companies already work with fairly mature reporting frameworks. Many reports stipulate the company's sustainability strategies and objectives and explain how these were incorporated into the day-to-day operation of the organization. These findings confirm our predictions of the last two years that Chinese companies would slowly improve their corporate social responsibility management practices and enhance their sustainable development capabilities.

More specifically, companies such as State Grid, Cosco Group and China Mobile are currently realizing worldwide leadership in corporate social responsibility management as they carry out endeavors in a fully comprehensive manner. We hope that more companies will realize the values of reporting and integrate these values into their responsibility management practices.

The growing importance of stakeholders

"Stakeholder" is an indispensible keyword for the practice of sustainability reporting. In the case of many Chinese companies, knowledge of stakeholders came together with knowledge about the concept corporate social responsibility. A basic understanding of stakeholders becomes especially important during the writing of a sustainability report as one chapter of the report can be dedicated to stakeholder communications. Therefore, during the sustainability report writing process, companies are forced to learn more about differences in stakeholders and pay attention to the interest of more parties than shareholders.

To our delight, the results of the SynTao Assessment show that sustainability report writing has become an excellent opportunity for companies to communicate with stakeholders. When in the process of report writing, some companies consult stakeholders on a wide range of topics to help them provide a solid foundation for sustainability management models. We believe that engaging stakeholders in report writing is a good start to develop sustainability management practices. Once a dialogue is initiated, opportunities for communication and cooperation can freely develop, making companies automatically aware of the importance of stakeholder-input for the growth of the core business.

On another note, increased pressure on companies will also enhance the position of stakeholders. We anticipate that pressure groups such as NGOs may use data from sustainability reports as a tool to initiate and establish more sophisticated and knowledgeable communications with companies.

Non-financial disclosure will mature

Sustainability reports are not the destination but a stepping-stone to a more comprehensive understanding of non-financial disclosure. From SynTao's perspective, sustainability reports are only one possible form of non-financial disclosure. Companies, especially listed companies, should not be satisfied with just the release of an annual sustainable report. Rather, they should aim to capture the values of non-financial disclosure and design a reporting framework that allows for continuous updates and communication.

At present, we suggest that Chinese companies explore the opportunities to enhance the practice of sustainability reporting and move towards a method of comprehensive non-financial disclosure that is accurate and more divers. As such creating a mechanism to provide stakeholders with the latest data updates on non-financial issues, while information remains to be presented within the corporate or industry context.

Non-financial disclosure improves the investors' understanding of corporate management and impact on the environment and society, helpful when making decisions for long and stable investments. The availability of comprehensive and accurate non-financial disclosure provides a strong incentive to the development of China's social responsibility investment market. The spread of responsibility investment, in turn, encourages companies to carry out sustainability strategies and positively influence economic and social sustainable development in China. Driven by sustainability reporting, we believe that the investment motto "change the world and create wealth" will also quickly increase in popularity in China.

Appendix:
The Chronicle of Sustainability Reporting Events in China

(The chronicle spans from December 2008 to February 2010. For preceding events, please refer to "A Journey to Discover Values 2007" and "A Journey to Discover Values 2008".)

In December 2008, Oxfam Hong Kong released the findings of the CSR Survey of the Hang Seng Index Constituent Companies, suggesting that companies achieving transparent disclosure show better performance in adoping CSR policies and measures.

In December 2008, the China Banking Association and its 51 members compiled and released the "Social Responsibility Report of China's Banking Industry".

In December 2008, China Finance Net issued "2008 Social Responsibility Report of China's Urban Commercial Banks".

On December 9, 2008, SynTao released the report "A Journey to Discover Values (2008) – Study of Sustainability Reporting in China" and established an open online information platform for sustainability reporting – "China Sustainability Reporting Resource Center".

In January 2009, the Shanghai Stock Exchange issued CSR guidelines for listed companies and a manuscript for directors of listed companies how to assess the quality of social CSR reports. These measures have helped standardize how the board of directors of listed companies compile and approve sustainability reports.

In January 2009, Cheung Kong Graduate School of Business released its "2008 Social Responsibility Report", the first business school in China to release such a report.

On January 8, 2009, the HSBC Bank (China) Company Limited issued its "2008 CSR Report" as the first foreign-funded legal-person bank releasing such a report in China Mainland.

In February 2009, the Regulatory Commission of Fujian Province took action to further guide and supervise companies' performance of social responsibility by requiring listed companies and stockjobbers to timely disclose their social responsibility performance not only in their annual reports but also in the interim reports, quarterly reports or provisional reports. In addition, the commission organized local companies to compile "Annual CSR Report of Fujian-based Listed Companies and Stockjobbers (2008)".

In February 2009, Li-Ning (China) Sports Goods Co., Ltd. released its "CSR Report 2008", the first CSR report in China in the sportswear industry.

In April 2009, Zhengzhou Yutong Coach Manufacturing Co., Ltd. released its "Social Responsibility Report 2008", the first social responsibility report of China in the bus industry.

In April 2009, Global Reporting Initiative (GRI) launched a new initiative to help purchasers urge suppliers to release sustainability reports and provided sustainability reporting training for a dozen of suppliers in five different countries.

In April 2009, Far East Holding Group Co., Ltd. released its "CSR Report 2008", China's first CSR report in the cable industry.

On April 20, 2009, on the opening ceremony of the Global Compact Network China, the CSR reports of six Chinese companies were rated as "model reports", including Datang Group, China Ocean Shipping (Group) Company, China Development Bank, State Grid Corporation of China, China National Petroleum Corporation, and Sinosteel Corporation.

On April 23, 2009, PetroChina released its “CSR Report 2008” and “CSR Report of CNPC (Kazakhstan)”, the first country-specific report of PetroChina.

On April 24, 2009, China’s first social responsibility red data book of the pharmaceuticals and healthcare industry was released on the Social Responsibility Forum of China’s Pharmaceuticals Industry.

In May 2009, the information collected by the Shanghai Stock Exchange showed that in 2008 a total of 290 listed companies released social responsibility reports, including “sustainability reports” and “corporate citizen reports”.

In May 2009, the director of the Research Department of the State-owned Assets Supervision and Administration Commission, when interviewed by China Securities Journal, encouraged more CGEs to release social responsibility reports and accept public supervision.

On May 26, 2009, the “2009 Conference of Releasing Sustainability Reports by China’s Industrial Economic Trades” was held by the China Federation of Industrial Economics with the guidance of the National Development and Reform Committee, the Ministry of Industry and Information Technology, the Ministry of Civil Affairs, and the State-owned Assets Supervision and Administration Commission. At the conference, 19 organizations released their social responsibility reports.

In June 2009, China Banking Regulatory Commission disclosed its CSR performance in the “2008 Annual Report of China Banking Regulatory Commission”.

In June 2009, China’s first CSR report of real estate companies initiated by the Economic Observer was released. The report, including a survey on the CSR performance of real estate companies in the three aspects, i.e. society, environment and economy, proclaimed 10 CSR standards for real estate companies.

In June 2009, the China National Textile and Apparel Council held a joint conference for 10 textile and apparel companies that released their sustainability reports guided by “China Sustainability Reporting: Guidelines for Apparel and Textile Enterprises” (CSR-GATEs) and independently audited by a third party. At the conference, China National Textile and Apparel Council released the “Social Responsibility Report of China’s Apparel and Textile Industry (2008)”, the straight third industrial report released by the council.

In October 2009, the Research Center for Direct Selling (RCDS) at Peking University issued the “Social Responsibility Report of China’s Direct Selling Industry (2009)”.

On October 14, 2009, Beijing Oriental Yuhong Waterproof Technology Co., Ltd. released its CSR report, China’s first social responsibility report in the building waterproofing industry.

In January 2009, the State-owned Assets Supervision and Administration Commission held a meeting concerning the social responsibility of CGEs required CGEs should focus on five specific areas, among which are “improve the social responsibility management system and clarify management responsibilities” and “establish and improve the social responsibility reporting system and strengthen information disclosure and responsibility communication”.

In November 2009, Wenzhou issued its “Corporate Social Responsibility Assessment System for Private Companies”, China’s first CSR assessment system specially designed for private companies, and stipulated that its first batch of pilot companies would start releasing social responsibility reports in 2010 and accept the supervision of the public and all stakeholders.

In November 2009, Global Reporting Initiative (GRI) established partnership with several online data platforms worldwide, including the China Sustainability Reporting Resource Center set up by SynTao, in order to share the latest CSR newsletters on a monthly basis.

On November 5, 2009, “Running & Loving: Consulting for Common Welfare” (RLCCW) released China’s first blue book of CSR reporting about A-share listed companies at the Social Responsibility Summit of A-share Listed Companies.

In December 2009, the China Securities Regulatory Commission (CSRC) required in the “Announcement on Annual Reports of Listed Companies in 2009 and Relevant Work” listed companies to strengthen their sense of social responsibility, actively take up their social responsibilities and disclose annual social responsibility reports.

In December 2009, China Talent Group released its “2009 CSR report”, which was China’s first CSR report in the HR industry.

In December 2009, China WTO Tribune, the Sino-German Corporate Social Responsibility Project, and the China Business Council for Sustainable Development (CBCSD) jointly held the “2nd International Forum of CSR Reporting”, in cooperation with Lloyd's Register Quality Assurance (LRQA) and Bureau Veritas (BV) of France. The forum released a report named “Study on CSR Reporting in China (2001-2009)” and showcased 30 “Golden Bee Outstanding CSR Reports 2009” to serve as the model for CSR reporting in China.

In December 2009, the Chinese Academy of Social Sciences released the “China CSR Reporting Guidelines”, the first reference handbook for CSR report writing independently developed in China.

In December 2009, SynTao was the first company to be selected by Global Reporting Initiative(GRI) as a certifying training partner on the Chinese Mainland, Taiwan and Macau SAR.

On December 15, 2009, the “Social Responsibility Report of China’s Automakers (2009)” was released at the 2009 Social Responsibility Forum of China’s Automakers.

In January 2010, it was announced that the highest charity award granted by the Chinese government, "China Charity Award" for the award selection in 2009, would include CSR reporting as a soft indicator.

On January 29, 2010, Sinosteel Group released the “Sustainability Report of Sinosteel Group in Australia”, the first sustainability report released in a developed country by a Chinese company.

In February 2010, the Association of Listed Companies in Shenzhen and the Securities Industry Association of Shenzhen jointly compiled and published the “CSR Report of Shenzhen Capital Zone (2009)”, recording and illustrating the achievements of 92 locally listed companies, 33 stockjobbers and fund companies in Shenzhen as well as their contribution to their shareholders, employees, society and environment.